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Studies in political economy

London

1875

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STUDIES IN POLITICAL ECONOMY

STUDIES IN

POLITICAL ECONOMY

STUDIES

IN

POLITICAL ECONOMY

BY

ANTHONY MUSGRAVE, C.M.G.

GOVERNOR OF SOUTH AUSTRALIA

HENRY S. KING & Co.

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1875

INTRODUCTION.

The following Essays have been the products of leisure hours: being merely written out thoughts which have arisen from study of the subjects to which they refer. They do not pretend to be a treatise, and are now published only with a view of suggesting to other minds for consideration the questions which have presented themselves to mine in the course of my reading and experience.

During twenty years of official life, in seven Colonial Governments—most of them in different parts of the world, and all under dissimilar conditions—it has been my duty to deal with many public financial and economical questions, and it has often occurred to me that facts and circumstances did not coincide with principles of political economy, which I had been taught to believe well-established; though what was the true cause of the discrepancy I was unable at the time to pronounce.

More lately, with greater leisure at my disposal for inquiry into a subject which must always possess interest in connexion with public affairs, I have devoted some

time and care to a review of the general doctrines of the economists; and I now believe that the error may be seen of which the effects penetrate almost every branch of economical science, and to which is due the confusion and obscurity so often obvious in discussions concerning capital and labour, commercial policy, culpable luxury, and other cognate questions.

All this prevailing cloudiness and paradox arises apparently from the inconsistency of writers—of which the effects are very surprising when examined—in first insisting that gold is a commodity like all other articles of exchange, which is quite true, and then proceeding to treat money as not property at all, but only a 'circulating medium.'

According to the principles laid down, an ingot of gold is an article of value which may be exchanged or sold like any other goods; but when once coined into pieces of ascertained quality and weight, which we call money, it must immediately be disregarded as having no effect upon the exchanges accomplished by it, and in which it is one of the articles exchanged. It is as though a cask of sugar should be considered merchandize but parcels of 5 lbs. put up at the grocer's treated as valueless.

The manner in which the subject is dealt with reminds one of the old story of the question said to have been put by Charles II. to the Royal Society of his day—Why a bowl of water with a fish in it, weighed no more

than without the fish? The learned body had excellent scientific reasons ready for His Majesty, why the presence of the fish should make no difference in the weight of the contents of the bowl; but were disconcerted, when recommended by the King to try the experiment, at finding that in fact a difference was made of exactly the weight of the fish. Now, the professors of economical science have assumed, on the authority of inconsistent statements and opinions of Adam Smith, that the value of gold and silver makes no difference in the amount of the world's wealth: as money they are only machinery for exchanging other things; and, consequently, all problems in Political Economy are to be worked out 'without the intervention of money.' The results are very curious.

In these essays, I attempt to trace the effects of this error in some branches of inquiry. In doing so, I have referred more frequently to Mr. John Stuart Mill than to any other writer, because his work may be considered to be the standard text-book on economical science. I am aware that a controversial tone is undesirable in treating any subject, and I have endeavoured to avoid this so far as possible; but in dealing with doctrines which are believed to be controvertible, it is difficult to evade the necessity of appearing controversial.

I am conscious, too, that an unknown writer should feel some diffidence in questioning the doctrines of an eminent teacher like the late Mr. Mill respecting a subject to which he had given especial attention. But even

great men are not protected from the possibility of overlooking, and thus aiding to perpetuate, a fallacy which is assumed to be a truth because they failed to detect it. This is a period when many previously accepted dogmas in science of all kinds are being freely questioned. Those of political economy cannot escape, and Mr. Mill himself has referred to the 'fatal habit of thinking through only one set of technical phrases.'

It does not follow because I point out what I conceive to be errors—which if they are such, must fatally affect theories based upon them—that I therefore profess to furnish an explanation of all perplexing economical and social phenomena. I only urge that, as it appears to me, we have not got the right clue by which to follow our investigations in search for the truth. And the truth in economical science is practically most important to us. Errors in this influence what may be called commercial legislation, and many matters of administrative policy, as well as others in different fields of human action. They touch the effects of loans for public purposes and of taxation—questions of much moment to any community. And this is certain, that the truth in any science will not be discovered so long as one decided error vitiates its fundamental doctrines.

Adelaide, 31st August, 1874.

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STUDIES
IN
POLITICAL ECONOMY.

A PLEA FOR SOME FACTS.

What I conceive to be the root error, from which a plentiful crop of fallacies springs in modern economical doctrines, consists in ignoring the fact—as hard a fact as any in science—that gold and silver are a 'medium of exchange' only in so far as, and because, they are eminently *articles*—and, from their peculiar value and characteristics, pre-eminently *the* articles—of exchange. They do not become valuable because they are money, but are money because they are specially valuable. Many other articles besides gold and silver have at times been used as money, but did not therefore lose their specific value. Adam Smith tells us that dried cod-fish served this purpose in Newfoundland not long ago, as did tobacco in Virginia, and sugar in the West Indies. And I have been informed on good authority that less than twenty years ago, in a

district in Mexico, round Acapulco, pieces of soap, stamped by the Alcalde, served as small change for a dollar. It is impossible to deny that a lump of gold, which you can have parcelled out into bits of a certain weight and fineness called sovereigns, is just as much an article of exchange as, and much more readily exchangeable than a bale of Manchester cotton, which cannot be used except as clothing, and being by no means absolutely necessary to anybody, even for clothing, has not any intrinsic worth which gold does not possess. Professor Fawcett, in his Manual of Political Economy, speaks of its being 'evident that exchangeable value is the characteristic which stamps a commodity with the attribute of wealth.' Plain men would therefore think that, according to this definition, gold, being very readily exchangeable, is certainly wealth as far as it goes; but in the next page we are told to 'pay careful attention to an erroneous conception of wealth, universal until the appearance of Adam Smith's work about eighty years since,' the essence of which error, as embodied in the 'mercantile system, was to identify wealth with money.' Now, no one would pretend that all the wealth of the world is gold and silver; but they are demonstrably as much part of it as parcels of Manchester goods, Birmingham wares, or Sheffield cutlery. To say otherwise is not more reasonable than to assert that because all horses are not mares, therefore mares are not horses; but this is really what is done. Because gold and silver are used as standards of exchange, it is assumed

they are nothing more and have no value; while, in fact, many other things may be and are media of exchange which are not gold or silver. Suppose that I have a black horse and a white one, and wish to change the white one for another black, as a match for the first. I know a friend who has a black, which will suit me; but he wants a brown horse, not a white one. I find another person who has such a brown animal, and who takes my white in exchange for him. I then change my brown with my friend for the black which I want, and we both are suited. The intermediate person would not sell his horse for money, because he wanted a beast of burden; but colour was unimportant to him. Surely in this case the white horse was as truly a medium in exchanging the brown for the black as money would have been if I had sold him for 100*l.*, and bought the other with that sum. But he was more than a medium—he was an article of exchange; he still represented a third value, again exchangeable. If a hundred sovereigns had been the articles of exchange, they also would represent a third value again exchangeable—with this addition, that they are practically imperishable, while the horse must die in a few years.

The aggregate 'realized' wealth of the world consists of an unknown quantity of more or less perishable commodities which we will call x; to which is to be added an unknown value in precious metals, which do not perish, which we will call y. The whole is $x+y$. But x is very

slightly, if at all, augmented at any time—because accumulation beyond a certain limit of things liable to decay is impossible, and increasing population causes consumption of the increasing production. Very small part of y is ever *consumed*, and the sum is yearly increased by the production of the mines of California and Victoria, as well as from other sources in different parts of the world. The relative proportions of these two constituents of the world's wealth are being yearly altered; and they will vary differently in different countries; but, that this is so, is mathematically demonstrable. And it is in these facts and these variations that we must look for explanations of many economical problems which are perplexing—and, indeed, are insoluble without recognition of the truth. The attempt to solve them by arguments based on false premisses is as profitless as the disquisitions of the ancient schoolmen as to the number of angels who could dance upon the point of a needle.

It is only surprising and deliberate disregard of these facts and the consequences flowing from them which can in any way account for such contradictory statements as, for instance, those made by Professor Fawcett in Book I., c. iv., of his Manual, where he speaks of the doctrine that a demand for commodities is not a demand for labour, 'a proposition which,' he says, 'is perhaps more rarely understood than any other in the whole range of Political Economy.' No wonder, indeed, when the explanations given start with the assumption of what is not fact.

But what is to be said of his statement that '*the capital of the country—and therefore the fund which is distributed amongst the labourers—is not in any way diminished if an individual should wantonly destroy so much wealth, instead of consuming it unproductively, for his own gratification*,' when placed against the assertion contained in the next sentence, '*that, consequently, an individual increases the wealth of the country, and improves the condition of the labourer, not by spending but by saving!*' If it does no harm to destroy instead of consuming, *à fortiori* the individual may as well consume; and if neither course diminishes the capital, it is not at all obvious how he can improve the condition of the labourer by saving a perishable commodity.

Further on, in the same chapter, Mr. Fawcett states, in discussing the supposed effects of a glut of capital, that 'the augmentation in the capital of the country has been supposed to result from diminished consumption of luxuries on the part of the rich.' Still a little further on, speaking of the effect of increase of wages arising from the application of the increased capital, he says: 'If the labourers were before supplied with all the necessaries of life, they, in their turn, will begin to consume more luxuries; and the labour, which before had produced luxuries for the rich, is now available to meet this new demand on the part of the labourer.' Surely, the effect produced here is rather a more equal distribution of luxuries than a diminished consumption of them. This

is not the place to discuss the advantage of such a result —I believe that it would be great; but it would by no means necessarily lessen the total production or consumption of luxuries.

Subsequently we are told that, notwithstanding that all capital is the result of saving, it is altogether an error to set aside with the intention of not spending, as 'this is a fundamental misconception, for capital cannot fulfil any of its functions except by being consumed.' 'The capital of a country is constantly being consumed in order to produce more wealth; and therefore capital is maintained by perpetual reproduction, and not by hoarding and keeping wealth out of consumption.'

These contradictory statements seem wholly irreconcilable; but the conflict arises from unconscious shuffling of the facts, which are in opposition to the theories he is maintaining, with those theories. What is it that is consumed, and what saved? He assumes that the capital —that is, the money—is consumed, and the perishable products of the capital and labour are somehow to be saved. But the contrary is really the fact: the money, which is almost the only true capital in relation to labour, is not consumed at all—it is the product of the labour hired with the money wages, which perishes if not consumed, and can only be 'saved' by being exchanged and re-exchanged until it assumes the form of something of an exchangeable value more durable than itself—in short, for money, for gold, the most indestructible and most exchangeable of all our articles of barter.

This brings us to the real hinge of the matter. Mr. Mill (vol. i. p. 91) states distinctly that 'everything which is produced is *consumed*—both what is saved and what is said to be spent; and the former quite as rapidly as the latter.' And again, 'The greater part of the wealth now existing in England has been produced by human hands within the last twelve months. A very small proportion indeed of that large aggregate was in existence ten years ago—of the present productive capital of the country scarcely any part except farm-houses and manufactories, and a few ships and machines; and even these would not, in most cases, have survived so long if fresh labour had not been employed in putting them into repair.' Now, if this be so—and I believe the statement to be true, if gold is not wealth—in what form, if not in gold and silver, exists that enormous accumulated capital, the aggregate savings of former years, ready to support labour wherever it is expedient to apply it, which Great Britain is known to possess—where shall we see it? Where is it to be found? Are we to be satisfied with Mr Bonamy Price's explanation (*Fraser's Magazine*, October 1873), that 'the "savings" of the agriculturist have been eaten by the manufacturers who owe debts through the banks to the agriculturist; but the banks do not hold the savings, but only registers of debts due by those who possess or possessed them?' According to which statement the savings of the world consist of ink-marks on paper. It is plain that 'the farm-houses and manu-

factories, the few ships and machines,' however valuable and useful as property in other respects, cannot be used to support labour; on the contrary, as Mr. Mill shows, they require labour to support them; they are causes of outgo, rather than sources of income. These are not the accumulated wealth set aside to enable further production. Then, where are the stores of food and clothing? No one keeps these for any length of time, and they are not produced or manufactured in quantities larger than will meet ready sale for more or less immediate consumption; and one bad crop at the same time all over the world would starve half mankind. Plainly, then, when the facts of the case are examined, and we are not misled with illusory phrases, we see that there is very little accumulated property of exchangeable value which can be applied to the employment of labour, except such as exists in the form of gold and silver. A man may have a splendid house and furniture, or a magnificent factory and machinery of all kinds, but he cannot employ labour with these, nor upon these, without money; or, at all events, without food and clothing to furnish in exchange—and no capitalist possesses stores of these.

I quite agree with Mr. Noel Vanstone, in Wilkie Collins's story 'No Name,' that persons are not half particular enough about the use of words. We ring changes upon 'capital,' 'money,' 'wealth,' 'labour,' 'production,' until we scarcely know what we are talking about. In the course of my own experience,

in my wanderings about the world, I have met a curious and amusing instance of the way in which a word originally meaning a particular thing has acquired a signification never intended, and has produced results which are practically inconvenient to some people. The word is 'dollar.' Some years ago, early in this century, a silver coin known as the Mexican dollar was in extensive circulation among the British Colonies in North America and the West Indies. It was the coin most generally used in paying troops, and for other army services, and passed from hand to hand very freely at the value of four shillings and fourpence, which had been fixed for it by an Imperial Order in Council. For some reason, another subsequent Order in Council was passed, reducing the rate at which the dollar should pass to four shillings and twopence. There seems to have been a mistake about this, because the coin was intrinsically worth more than four shillings and twopence, and the effect was to cause the speedy disappearance of the Mexican dollars, probably into the melting-pot. It might be supposed that this was a simple matter, and an end of the Mexican dollar. Not at all. His ghost walked as money of account in the colony of Newfoundland, at least. Salaries and debts had been paid there with these coins at four shillings and fourpence, and afterwards at four shillings and twopence, as we now pass crown-pieces at five shillings. But after the disappearance of the coin itself, by a most extraordinary juggle the name was used so as

to enable persons to pay a debt of four shillings and fourpence with four shillings and twopence, and to establish what is still known as Newfoundland sterling. A dollar had been equal to four shillings and fourpence, but four shillings and twopence is now equal to a dollar. A dollar is equal to a dollar—things that are equal to the same thing are equal to one another. Four and twopence is equal to four and fourpence: I owe you four and fourpence, but am entitled to a discharge if I pay you four and twopence. The thing seems incredible; but yet the system became so established that, up to the time, a few years ago, when my acquaintance with the colony ceased, if you sold a horse for fifty pounds sterling, without specifying British sterling, you would lose a discount of four per cent., and receive only 48*l.*; and the Judges of the Supreme Court, whose salaries are given by law as so many pounds sterling, were mulcted by that percentage on their incomes. I think this will be admitted to be a curious result from the use of a word. 'Dollar' first and really meant a piece of silver of a certain form and weight; it then meant four and fourpence; then four and twopence; and then that four and twopence is equal to four and fourpence.

It is not often that we meet with so much confusion from metonymy as this; but we are frequently led into perplexity by uncertain and inexact use of words, especially those which have become technical. We are told that we are not to consume 'luxuries' because this diminishes the 'production' of 'wealth.' Now, *in limine*, it is necessary for any profitable discussion of this subject to define what is meant by 'luxuries,' and 'wealth,' and 'production.' If we pause a little to consider, we shall find that wealth and luxuries are nearly, if not altogether, synonymous, and that it is necessary that we should settle what it is permitted to produce. If luxuries are not to be consumed, what is the good of producing wealth? We are clearly not to produce wealth in the ancient sense of the word; we are not to have well-to-do-ness; we are to evolve something else now known to the political economists by that name, but which is not money nor luxuries. Here is a bottle of champagne—clearly a luxury if anything is. I must not drink this, because if I do somebody will be foolish enough to make more and get paid for it. Nobody is to drink champagne. The champagne is to be added to capital somehow. The champagne-growers do not quite like this; that's nothing; they must turn their attention to some other respectable occupation. But what other? They must not make silk goods—those are luxuries; nor lace, nor velvets, nor ribbons, nor carriages, nor ornamental houses; no *articles de luxe;* not even Manchester cottons, for any one who has knocked about the world knows that a flannel shirt is far better to work in; and persons with limited means use no materials for outer garments which require frequent washing. What are these people, and

all others in like cases, to do to produce wealth? They may grow plain food, weave rough clothing, and build log-huts. Everything beyond these is really a luxury which must not be consumed, and therefore not produced; because, we are told, that to do so will be a detriment to the wealth of the community. The food and the rough clothing and simple shelter are not likely to be accumulated in any large quantity; and it seems difficult to understand in what the 'wealth' would consist, seeing that society would have gone back nearly to the condition of the Kafirs of South Africa. For, as is very tersely stated by the elder Mill, at the beginning of the 4th chapter of his work on Political Economy, 'of the four sets of operations—Production, Distribution, Exchange, and Consumption—which constitute the subject of Political Economy, the first three are the means. No man produces for the sake of producing and nothing further. Distribution, in the same manner, is not performed for the sake of distribution. Things are distributed as also exchanged, to some end. That end is—consumption.'

Many persons who, like myself, have been too busily occupied during early life to examine attentively the grounds of accepted principles of political economy, have yet in different parts of the world, and in new and sometimes savage communities, had opportunities for applying the common doctrines, and as it were trying how they would fit. In many cases they do not fit at all.

For instance: if it be true, simply and without qualification, that a person does good to the labouring classes not by what he consumes himself, but only by his abstinence from consumption, then I know of no people that do so much good to the labouring classes, both among themselves and among the nations of Europe, as the Kafirs of South Africa. They live in huts made of reeds built by themselves with the assistance of their wives, so that there is no foolish waste of labour there. Their clothing is of the severest simplicity, not nearly so elaborate as the Cherokee full-dress, consisting of a cocked hat and pair of spurs, for they only require a moucha, a bunch of feathers before and behind, suspended by a string from the waist. Their food is composed of pounded maize, with an occasional feast of half-cooked beef from one of their cattle, herds of which constitute their wealth. Now, if any people can boast of abstinence from consumption of luxuries produced by the manufacturers of Europe or elsewhere, they can; and I suppose, therefore, they really benefit the labourers who produce them. All attempts to induce these people to consume what are to them luxuries, and to labour that they may have the means of buying them, must, according to the proposition we are discussing, be absolutely injurious to their own community; because, to do this, their labour must be applied to purposes not productive of the commodities hitherto regarded by them as necessaries, as of these they have already more

than enough for their consumption, though the surplus unfortunately is unsaleable and perishable.

It appears to me that if we follow out the principles propounded we logically arrive at this conclusion, and must regard the Kafir economical arrangements as affording the highest type which can be followed. But it is not in accordance with this view of the subject that the British nation has, almost at the point of bayonet and the cannon's mouth, forced the consumption of luxuries produced by British industry upon unwilling customers in semi-barbarous nations like the Chinese and Japanese.

Now let us turn from Kafirland to a gold-producing country like California or our own colony of Victoria. Of what use would it be to the digger to mine for gold if that were really only a medium of exchange, unless, when he got it, he should have something else also which he hoped to exchange by its means? But in fact the gold here is the equivalent of his labour expended upon obtaining it, and paid for, in many instances, at a very high rate. He now has his labour in a concrete form, which he may exchange for anything else, and which yet is never consumed, except by scarcely appreciable friction or oxidation.

And if a person does good to the labouring classes only by his abstinence from consumption, surely there never was a community or state of things more injurious to the working classes than that which may be seen in

Victoria, for, I suppose, in no part of the world will 200,000 people be found together who consume nearly so much as the population of Melbourne, which is about that number.

I think that I have not exaggerated a single supposition, and the result is the logical outcome of the conduct recommended by the economists. In order that we may produce we are not to consume. It does not seem to occur to them that in this case it must be decided what we are to produce; that sumptuary laws must be adopted on a very extensive scale to settle what is and what is not a luxury; and that as luxuries are diminished so will be wealth, and all possibility of accumulating it, except in the shape of gold, which will then be lessened in practical value—so little in the way of comfort, not to say luxury, could be got in exchange for it.

Another misleading phrase, and that which I believe to have caused a great deal of the prevailing misconception, is 'medium of exchange,' as applied to money. Gold and silver are exchangeable commodities, and have their value chiefly in that fact; they serve as 'money;' but this word is rather the expression of a function than the name of a thing. Gold and silver are weighed and stamped in certain quantities by authority, as ready articles of exchange; but they are not more media of exchange than bricks or bales of cotton, though they have been adopted as standards of value, just as the

human foot was adopted as a standard of measure. The circulation which gold and silver are supposed to produce is equally assisted by other articles of exchange, and is as intangible an effect as music. A piano is not the less a substantial thing because it produces music, though its chief value is as a musical instrument, and it will not produce music without being used for the purpose; and other instruments will produce music, though not so commonly used. But it seems to me that Adam Smith, though very inconsistent, does not fall into quite the same depth of error as that in which Mr. Mill and his disciples appear to have floundered in respect to the character of money. Mr. Mill rejects with scorn the idea that gold and silver could have any value of their own. He scoffs at it and misses no opportunity of tilting at what he regards as an absurdity. In one place (vol. ii. p. 172) he says that 'money is to commerce only what oil is to machinery, or railways to locomotion —a contrivance to diminish friction.' In another he states (vol. ii. p. 11) that 'when one person lends to another, as well as when he pays wages or rent to another, what he transfers is not the mere money, but a right to a certain value of the produce of the country, to be selected at pleasure.' Than this last it would not be easy to devise a statement more absolutely or precisely untrue. It would seem as if, by confusion of ideas, the political economists thought that, because bank-notes are money and are, or ought to be, convertible into

sovereigns on demand from a particular person, at a specified place, all money is likewise convertible into something else on demand. No doubt Mr. Mill practically found it so in his experience; but he had not lived in new countries. The possession of gold gives no right at all any more than the possession of bales of cotton or pigs of iron. I cannot compel any man to change his goods for my sovereigns; and no one will do so unless he thinks it will be to his advantage. In places like the gold-mining regions of California and British Columbia, in their early days, before transport was organised, flour and other food has been worth its weight in gold, and gold readily obtainable for it; yet the possessor of the food has refused to part with what to him was more valuable there than gold; and men have been found dead of starvation on heaps of gold. But it would be absurd to suppose that the gold had no exchangeable value in another place.

Another instance of the exceedingly illusory effect produced by the incorrect application of words may be found in the use of 'convert' constantly made by the writers on Political Economy. An example may be found in vol. ii. p. 184 of Mr. Mill's book, where he is speaking of supposed effects of the discovery of treasure. He says: 'Effects of another kind, however, would have been produced. Twenty millions, which *formerly* existed in the unproductive form of metallic money, have been *converted* into what is, or is capable of becoming pro-

ductive capital.' If this statement is examined it is found to be absolutely untrue. It at first gives the idea that the money has been changed into something else; but the twenty millions of metallic money have in no sense been *converted* into any other more profitable substance or commodity. Gold cannot be converted into something else, as water may be converted into oxygen and hydrogen, or those gases into water; or even as a piece of cloth into a coat, for in this last case the cloth ceases to be useful for any other purpose. The twenty millions of capital remain totally unchanged, but they have been *ex*changed for other commodities with other people of other countries who doubtless regarded the gold as not unproductive, and expected, in some manner, to derive advantage from the transaction; and the gold will again, as capital, be exchanged for other commodities, but will not 'perish in the using.'

On the very same page there is another illustration of the extraordinary inconsistency everywhere observable in handling the subject. Mr. Mill alludes to what he regards as the extreme aptness of a comparison made by Adam Smith, where 'he compares the substitution of paper in the room of the precious metals to the construction of a highway through the air, by which the ground now occupied by roads would become available for agriculture. As in that case a portion of the soil, *so in this a part of the accumulated wealth of the country* would be relieved from a function in which it was only employed in rendering other soils and capitals productive, and *would itself*

become applicable to production; the office it previously fulfilled being equally well discharged by a medium which costs nothing.'

When taken to pieces this is a very surprising passage, following what had gone before. First we have an admission that the precious metals, which are commonly treated with so much contempt, *are* a part of the accumulated wealth, the capital of the country, which we are so frequently told they are not. Then we are informed that this unproductive metallic money, only good as a circulating medium, will, if relieved from that function, itself become applicable to production, though how, except as an article of exchange, which it was before, we are not told. And we finally arrive at the surprising conclusion that the office which it previously fulfilled will be just as well discharged by something which is worth nothing, that is, certainly not having an inherent exchangeable value. In other words, the possessor of the gold, by a pleasant little arrangement, is to use it as an article of exchange, and also to do the same with a simulacrum or eidolon of the gold, in hope that the real substance of this latter will never be asked for, or, at all events, not asked for from him.

It is not necessary to the purpose of my present argument to enter upon any discussion of the arrangements by which all British currency, at least, is supposed to have a real metallic basis. I have no doubt that this fundamental principle is, in commercial practices, often evaded. But

theoretically, at all events, every Bank of England note of five pounds is presumed to represent a certain five pounds' worth of gold in the vaults or elsewhere. If it does not, then some one has been practising the pretty little plan for getting something out of nothing. But this very fact, that the real thing has been counterfeited, is only excellent evidence that the original possesses a true value which it has been sought to duplicate.

Illustrations of the mystification which nevertheless prevails in men's minds on this branch of the subject has been afforded recently in Mr. Bonamy Price's review of Mr. Bagehot's book, 'Lombard Street,' in the number of 'Fraser's Magazine' for October 1873. It is to doctrines like Mr. Price's that the world owes disasters such as the recent commercial panic in the United States. Indeed, I suppose that the teachers of no science have so much human misery to answer for, or have assisted so much fraud, as the doctors of Political Economy. Once establish the belief that money is nothing but machinery—of no value in itself—and the step is easy to making this machinery out of a valueless representative like paper, which is supposed to stand in place of something called 'wealth' to be 'produced' from the womb of time. Then comes the panic from some accidental cause—the rush, and the lamentable discovery by pauperised widows and orphans that the bank-notes or other securities for money which they hold are only simulacra, and they grasp nothing but air in their frantic attempts to recover their lost property.

It is easy to obscure the mental vision by the spray from a cataract of words; and we may amuse ourselves by romantic fancies that banking is an affair of goods, and exchange of barrels of beer from the brewer for timber from the timber-merchant—the fact remains that what is deposited in the bank and what the bank afterwards lends is gold, or the right to demand gold from a particular person at a specified place, and no other right whatever. The gold may never be touched for months or years, but it is all the time presumed to be tangible; it should be there when wanted, as the final residuum of all the transactions, and if it is not, the transactions are tainted with fraud.

Mr. Price is indignant at what he terms the exaggerated language of an alarmist used by Mr. Bagehot in drawing the startling inference that on the wisdom of the directors of one joint-stock company it depends whether England shall be solvent or insolvent. It is well that it should be startling. Here, again, we can puzzle ourselves with words—with 'assets,' 'liabilities,' 'deposits,' 'loan funds,' 'issues,' and 'reserves;' but when the verbiage is cleared away it is obvious to reason that '*ex nihilo nihil fit.*' It is simply plain, with the Bank of England as with any other bank or with an individual, that unless the gold in its possession, together with its claims upon others for gold, are equal to or greater than the demands of others upon it for gold, the Bank is not solvent. And more than this—if the Bank's claims upon others are satisfied by

returning its own paper, and it does not possess gold sufficient to meet the demand upon it from its own creditors (in other words, if it has more paper afloat than is covered by gold or what is exchangeable into gold), if there should be a run upon it, a collapse is inevitable, which may or may not be regarded as a bankruptcy of England, but which would have the effect of shaking the prosperity of the nation at its foundation. The nation cannot pay its international obligations by transfer of real property; and should the accumulations of gold be exhausted, it is not easy to see what other moveable wealth can be used for the purpose.

And if Mr. Huskisson was wrong in declaring it to be 'the essence of money to possess intrinsic value'—if nothing were wealth except 'production' of some indefinite character, whence would be derived the profit admitted to be often obtained from the sale and re-sale of the same commodities, which are not augmented in quantity or quality by any new labour upon them before they are finally consumed as food or raw material? Such profits as these cannot be embodied in nothing but gold.

And again, why should we be so solicitous that the metallic currency of the country shall not be debased, if it were not really in itself wealth, but only an order or token exchangeable for something else, like an opera-ticket? Mr. Mill waxes warm with righteous indignation at the profligate governments who, for the sake of robbing their creditors, seldom scrupled 'to confer on all other

debtors the licence to rob theirs, by the shallow and impudent artifice of lowering the "standard;"' but it is difficult to see the shallowness, though we may the impudence, if Mr. Mill is right in saying that what a man transfers in paying wages is not mere money, but a right to a certain value of the produce of the country. The recipient of the wages will still be able to get his 'right,' whether the token is a real shilling or only a pewter imitation of one; and the Government would get the value of the gold from foreign people foolish enough to change with them. The result is the same as with an issue of paper not representing bullion.

But on all sides we see evidence that coin is a commodity which everywhere finds its level of value as an article of exchange rather than as a 'medium.' I have known several instances in my own experience. Besides the case of the Mexican dollars, which, as I have already mentioned, disappeared from circulation immediately that it was attempted to pass them at less than their value, another instance is afforded by the disappearance of some old Spanish coins called 'Pesetas' from one part of the British West Indies and their collection in another. Fifty years ago the money of account in the Leeward Islands was a currency at 225 exchange; that is, one hundred pounds sterling was equal to two hundred and twenty-five pounds currency—four shillings sterling was equal to nine shillings currency. There was very little English coin in circulation,

but an English shilling passed for two shillings and threepence currency, and the peseta passed for one shilling. A few years later this currency and money of account became inconvenient, and English sterling was established as the legal currency in all the larger islands. There was no difficulty about English coin, but there was much in determining what the peseta should be taken for. Nine were formerly equal to four shillings. To pass them at sixpence each would make nine of them equal to four and sixpence. To fix fivepence as the rate would reduce the value of nine to three-and-ninepence; but as the lesser evil this course was adopted. I believe that this exceeded their intrinsic worth, for they contained some base metal; but the reduction of their nominal value hȧd the effect of sweeping them all, in an incredibly short time, into the Island of Nevis, where they were allowed to pass at the old rate for a longer period than in the larger and more wealthy communities. When I was in that island, some thirteen years ago, there was scarcely any coin in circulation but these pesetas, and when once there Nevis could not get rid of them. An attempt was made to have them collected and re-coined in England, but it was found that a considerable loss would be caused to the public chest by so doing; and, for all that I know, Nevis cherishes her pesetas still.

Another case of somewhat the same kind came under my notice in British North America. All through the Provinces now forming the Dominion of Canada accounts are

kept in dollars and cents, but there were very few, if any, coined dollars or fractions of dollars in circulation. British coin was used. In Newfoundland the British shilling passed at its true value, twenty-four cents. In Halifax, a much more populous and busy place, coin for exchanges was much more needed, and, for convenience, the shilling was taken by the shopkeepers and the banks as a quarter dollar, or twenty-five cents. The effect was to clear all the English shillings out of Newfoundland into Halifax. That four per cent. difference in value between the two places was sufficient to repay the banks in Newfoundland the expense of shipping English silver to Halifax to meet their own drafts.

It is unnecessary to multiply instances, of which there may exist many more than I know. What it is requisite to insist upon is, the significance of these facts, as showing that coin, too, is a commodity which will find its way to the place where it can be exchanged for other commodities to the best advantage. It is remarkable that insistance upon this matter should be called for; but it is necessary, on account of the confusion which has arisen from the inconsistencies of the economists, in first acknowledging that the precious metals are to be considered and treated as commodities like any others of exchangeable value, and then, in the same breath, declaring that they are so utterly insignificant in their value and exchangeableness as to be a mere 'medium'—an intangible nothing—from any reference to which you must clear your

mind, in speculations or theories as to the manner or effects of the production of wealth. The result is much like what might be expected from a discussion upon the conduct of the other characters in the play of 'Hamlet,' all reference to that of Hamlet himself being omitted.

I plead guilty to a feeling nearly akin to consciousness of presumption in daring to call up for reconsideration questions that are supposed to have been settled, once for all, by men so eminent as Adam Smith and John Stuart Mill. But, as there were great men before Agamemnon, so there were wise and thoughtful men before Adam Smith, who did not quite agree with him; and I think the ordinary every-day experience of a good many of us teaches that Locke, who was supposed to know something of the power of the human understanding, was not very far wrong in regarding money as a 'steady friend, not very liable to be wasted or consumed; the most solid part of the moveable wealth of a nation.' My views, whether with or without true foundation, are grounded principally upon my own personal observations in four out of the 'five quarters' of the world—in places where facts do not accord with common dogmas in Political Economy, but where opportunity is afforded for studying the effects of alleged principles more easily than in larger communities—just as one can see more readily in a model the details and modes of action of the several parts of a large machine.

It follows, if I am right, that what have been sneered at by Whately and others, as the 'absurdities of the mercantile system,' are not all absurd. Like many other

doctrines treated as erroneous, they contain a half-truth. It would be ridiculous to assert that there is no wealth but gold and silver; indeed, wealth in the old sense of well-to-do-ness, comfort, if not luxury, may well exist, and does exist, in many places without the presence of much money, just as large accumulations of precious metals may be found in gold regions where comfort is conspicuous by its absence; but it is quite as childish to pretend that the precious metals are not wealth while the world recognises their exchangeable value. This is all that I contend for. And possibly many persons will at once readily concede this. But, if so, it is important to note the consequences which follow from the admission.

1. If the precious metals already extracted from the earth are a portion of the world's wealth, 'realised,' 'capitalised' wealth, as articles of exchangeable value.

2. And we remember that the other products of labour and capital are in themselves more or less perishable, and cannot themselves be added to 'capital' or *permanent* savings to be applied in support of labour.

3. Then this being so, it follows from the nature of other things, and the more durable character of the precious metals, that in their form must always be collected the chief part of a nation's 'savings;' and that, therefore, the 'capital,' of which we hear so much as applicable to future production, must be almost entirely money.

4. Then it follows, that capital is practically indestructible, and can be used over and over again for the same

purposes by different persons, as it circulates from hand to hand; but itself remains a potential energy unconsumed.

5. That luxuries, and wealth which is not money, are practically synonymous; and that, if we are to abstain from the consumption, and therefore the production of luxuries, it is essential for economists to define what is the nature of the 'wealth' which is to be the object of 'production.'

6. That it follows that demand for commodities is always a demand for labour, else there would be no object in withdrawing it from one class of production for application to another. But that labour may be applied, and often is, to services which do not produce commodities.

The correctness of these conclusions may be tried by the personal experience of any one; and I believe it will stand the test. And by their light many social phenomena which are attracting attention may be more readily interpreted than is possible in accordance with the commonly received dogmas of so-called economical science. We are told that prices are rising in all parts of the world; and we can easily understand why, when we recognise gold as an article of exchange, and know that it is more abundant. It is a complaint that the mercantile classes are becoming more and more wealthy, and that poverty is increasing among the masses of the people; and this we can comprehend when we remember that the final residuum of the commercial interchanges of the world is gold, and is most likely to be found in the hands of the mercantile

classes—that it is with them that the wealth of a commercial country will most accumulate; but that the masses having nothing but their labour to exchange for gold, which is cheaper, and cannot be again exchanged for so much of other wealth, they are no better off, and, in some cases, the change is to their disadvantage. And these facts throw some light upon another fallacy maintained by McCulloch and others against the opinion of Adam Smith, viz., that what is for the benefit of the individual must be for the benefit of the community, because the community is only an aggregate of individuals.

Great Britain is undoubtedly greatly richer upon the whole than she was a hundred years ago; but notwithstanding the great increase of population, whose labour is a source of wealth, vast numbers are unquestionably worse off than their predecessors were then. Wealth is much more unequally distributed; and, in spite of Mr. McCulloch, it may be held to be better that ten men as a body should have nine pounds each, making a total of ninety pounds, than two of their number should have forty pounds apiece, other two ten pounds, and the rest nothing at all, although the aggregate is one hundred instead of ninety pounds.

To observant persons it is visible that we are meeting at every turn the natural result of stimulus given to all kinds of production, or, in other words, to industry, by the large increase in the quantity of gold, and the greater usefulness accruing to gold as an article of exchange from

the growing freedom of trade and facility of intercourse between different parts of the world. But the profits of commercial prosperity, upon which we so much pride ourselves, go into the pockets of the traders, and not the workers and producers. This result was not intended; but it will be the source of the troublesome social questions which are looming in the not distant future, and have already sporadically shown themselves in many shapes. It was supposed a few years ago that political reforms were the panacea for all the evils from which the masses of the people suffer. It is beginning to be apparent in the republican United States that even the freest institutions of that cynosure of so many eyes in England will not prevent disproportionate accumulations of riches in the hands of a few; and already discussions are arising there as to what should be done to secure some more equitable redistribution.

My essay is intended as a plea for some consideration of the facts I have adduced, which I hope may be given by others better qualified than myself to deal with the whole subject. It is from disregard of them that the confusion arises, which is obvious in such controversies as that between Mr. Goldwin Smith and Mr. Greg, recently published in the 'Contemporary Review,' as to what is 'culpable luxury,' in which the quite separable, moral and economical, aspects of expenditure are so mingled as to present nothing but a blurred and unintelligible whole. If I am foolish enough to give five

hundred gold sovereigns, exchangeable for a great many purposes, in exchange for a diamond, useful for none, my conduct may have been both idiotic and immoral in its relations to persons having claims upon me; but why my exchanging with another man a metal, alleged to be worthless, for a still more worthless stone, should have any effect in diminishing production, or the total wealth of the country, or the happiness of my poorer neighbours, I admit myself to be quite unable to perceive.

If my conclusions are not altogether erroneous, this, at least, is plain—that there should be some revision of the usual dogmas and teaching of the economists. It may be seen that in the actual transactions of the world they are generally disregarded, though they often are the real seed of the commercial panics which distress communities. Still students should not be misled by sophistical statements that money is not wealth at all, but only a medium of exchange; that gold is not capital; that wealth is not luxury; and that demand for commodities is not demand for labour. Let us not perplex ourselves and others by fanciful explanations of social circumstances. Let the truth be discerned and admitted that the artificial fabric of society and our system of commerce, as they are constructed under what we call civilisation, are based upon the exchangeable value of gold and its recognition as wealth; and that if it were in our power to demolish this foundation the whole superstructure would subside in confusion.

MONEY—A FUNCTION.

In my last essay I pleaded for the consideration of some facts which, I think, show that the precious metals, and especially gold, cannot justly be regarded as only a medium of exchange in the same manner as a bank-note may properly be so regarded. The intrinsic exchangeable value of gold, and the possession by gold of all the essential characteristics of wealth, must be admitted, it appears to me, before we can obtain any satisfactory solution of the many interesting and highly important questions arising out of the commerce of a community within itself, or of nations with each other.

When once a glimpse has been obtained of the character of the fundamental error which vitiates so much of the arguments used on economical problems, it becomes most interesting to observe the manner in which it starts up every now and then in all branches of enquiry, like an *ignis fatuus*, and leads the expounders of these questions along paths which terminate in a bog of paradoxical perplexity, from which they only clumsily escape by floundering through an attempt to show that one and one make three. It is to me a matter of the

gravest astonishment that a man with the intellectual power and logical perception of Mr. Mill, should not have known, when he stated that there cannot be intrinsically a more insignificant thing in the economy of society than money—when he called it a machine, a medium, or oil for machinery—that he had really misconceived the whole affair, that he was dealing metaphysically with what is a matter of simple physics, and that it would have been far more scientifically accurate and philosophically true to say that there is no such distinct thing as money—that all articles of exchange fulfil the function of money—that all commercial dealings are reducible in principle and in fact to barter, or exchange of one article of value for another—and that he who gives a sovereign for four pairs of gloves has only bartered a piece of gold for manufactured leather. Repeatedly throughout his work he says what is equivalent to an admission of this simple truth; quite as often he goes back to his favourite error, that money is not real wealth, but only represents a right to some of the produce of the country. The distinction between this error and the fact may, at first sight, appear unimportant, but it is very far from being so; in truth, it lies at the very root of all the discussions which are so frequent concerning capital, and currency, and labour; because an idea, which properly belongs only to a function, has become associated with a thing; and then, by a very singular kind of mental legerdemain, a shadow has become confounded with, and in many cases

apparently substituted for, the substance, without which it could have no existence. Because gold coin serves the function or purpose of money or exchange, and is more frequently used for that function than any other article, gold has come to be considered as pre-eminently money, and then to be nothing else but money; that is, nothing but a function. And I may here observe that the transference of idea from the act done to the thing by which it is done may be traced in the use of the word 'change' for money. Then, because bank-notes, under certain arrangements and conditions, which are forgotten, serve in the place of the real article of exchange, they have gradually become identified with the substance, of which they are but the *doppelgänger*, and then substituted for it, until paper has been, at last, supposed to be money. The mode in which these different dissolving views are blended into one another in all the doctrines of the economists, until it is almost impossible to discern what is a picture of facts and how much is an illusion, is very extraordinary to any one who just exercises enough common sense to remember that, if A exchanges something for another thing with B, who again exchanges that something for yet another thing with C, there must have been three things of substantive value employed in the transaction, unless one of the three parties has been defrauded.

Two facts are commonly left out of sight; the first is, that any medium of exchange must be the representative of some article of value, if not such an article itself; that

no one deliberately exchanges something for nothing. If a man exchanges the produce of his farm for a bank-note for one hundred pounds, he does so in the belief that the note represents a certain quantity of gold, which can be obtained from a certain person at a certain place. If he has exchanged for a hundred sovereigns, he knows that he has the gold, and that this is readily exchangeable for any other thing that he may require, either in his own country or in any other known to him; but if this also was like the bank-note, a *doppelgänger*, or shadow of something else, it would be necessary to know what the substance is of this shadow. There is nothing which it can represent; it gives no title to anything but the possession of itself. It cannot, as supposed by Mr. Mill, stand in the place of something which he calls capital, and says has been given for it; because, the thing for which it was even last exchanged may have perished, and the shadow has no right to exist after the destruction of the substance. It cannot represent production as yet unaccomplished, for the shadow cannot exist before the substance. It does not give, at any time, a claim upon any specified person; it simply rests its title as an article of exchange upon its own inherent value.

And the second fact is that, apart from the intrinsic value which the readiness of all mankind to exchange other articles for it has conferred upon gold, it does possess properties as a metal, which, but for its costliness—but for its extreme value—would render it one of the

most useful for common purposes of everyday convenience which are known to us. For the purpose of water-pipes alone, the cleanliness of the substance, so to speak, its freedom from rust or oxidation, would render it a great deal more useful that any other that we know. It appears to be a *reductio ad absurdum* to say that, because of the extreme value and usefulness of an article, it therefore shall not be considered as forming any part of the wealth of a country, and is a mere 'wheel of circulation.' And yet, we find such passages as the following in Smith's 'Wealth of Nations' (Book II., chap. 2):—

'If a guinea be the weekly pension of a particular person, he can in the course of the week purchase with it a certain quantity of subsistence, conveniences, and amusements. In proportion as this quantity is great or small, so are his real riches—his real weekly revenue. His weekly revenue is certainly not equal both to the guinea, and to what he can purchase with it, but only to one or other of those two equal values, and to the latter more properly than to the former—to the guinea's worth rather than to the guinea.

'If the pension of such a person was paid to him, not in gold, but in a weekly bill for a guinea, his revenue surely would not so properly consist in the piece of paper as in what he could get for it. A guinea may be considered as a bill for a certain quantity of necessaries and conveniences upon all the tradesmen in the neighbourhood. The revenue of the person to whom it is paid

does not so properly consist in the piece of gold as in what he can get for it, or in what he can exchange it for. If it could be exchanged for nothing, it would, like a bill upon a bankrupt, be of no more value than the most useless piece of paper.'

In this statement exists a fallacy which ought to be transparent. It is overlooked that the same argument may be used with exactly the same force with respect to any other commodity, except simple food or clothing, as well as to the guinea. It can quite as truly be said that the revenue of the vendor of any manufactured articles, whether woollen, or cotton, or silk, or glass, earthenware, or hardware, does not consist in these things, but in what he can get in exchange for them. The producer or possessor of acres of cloth, or tons of ironmongery, may die of starvation if he cannot exchange these things for food with the producer or possessor of food. Why should wool or iron be deemed wealth, and that character be denied to gold, which is more exchangeable and less perishable than either? Is it the fact that nothing but food and clothing is wealth? But it is this fallacy, that money is something essentially different from other ordinary articles of exchange, which, like the *ignis fatuus*, starts up later in the same chapter, where he says that 'the substitution of paper in the room of gold and silver money replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient.' The sentence is a contradiction. In the first place, the

gold and silver are not more especially the instruments of commerce than ironware or glass; and Adam Smith would have laughed at the idea of replacing these with paper, as being less costly and equally convenient. And if gold money were only an instrument, and had no intrinsic value, it could not be expensive; and there could be no use in replacing it by paper, except to prevent its being simply worn by friction. Substitution, according to Adam Smith, really means that the substance and the shadow of the *doppelgänger* shall both, by some hocus-pocus, be used as articles of exchange. If paper could, indeed, be truly substituted for gold as money—if we could really deprive gold of its intrinsic value as an article of exchange—we might then have the use of this metal for purposes for which it is peculiarly suited, but to which it is now too costly to be applied.

In order to see how very curiously the fundamental misconception of the character of money is interlaced with other ideas, and what a misleading effect is produced, it will be worth our while to follow Mr. Mill through the seventh chapter of the third book of his 'Principles of Political Economy,' where he treats 'of money.' He begins by saying that, having proceeded so far in the discussion of his subject without introducing the idea of money, except for illustration, it is necessary to superadd that idea, and 'to consider in what manner the principles of the mutual interchange of commodities are affected by the use of what is termed a medium of exchange.' This,

in effect, is to say that it is necessary to consider how interchange is affected by itself. If I change a hogshead of claret for a horse, and the horse again for a phaeton, and the phaeton for one hundred sovereigns, and the sovereigns for a diamond, which I change with a jeweller for a ruby bracelet, every one of these things has been obtained through a medium of exchange, and not one more than another. And when Mr. Mill proceeds to say that 'in order to understand the manifold functions of a circulating medium, there is no better way than to consider what are the principal inconveniences which we should experience if we had not such a medium,' he uses language which could only be properly applied to a metaphysical abstraction, like thought or clairvoyance. It is like asking how we should think if we had no thought, or how we should exchange if we had nothing to exchange. To ask what we should do without gold, is quite another question, and one nearly as difficult to answer as what we should do without water. Gold does fulfil a purpose in the world's affairs which nothing else answers so well. It would be beyond the scope of my present remarks to enter upon that topic; but it might be an interesting vein of thought to follow out the moral effect of the special properties of gold in the world's transactions—to see how its portability, durability, and universal exchangeableness, promote self-denial and frugality—to observe how, but for the possibility of saving which is afforded by its peculiar properties and general acceptance,

lavish consumption and wasteful destruction would be encouraged—and how it enables, as no other article of exchangeable value can, aid to be rendered to those in need at a distance. But, leaving moral aspects of the question on one side as too sentimental for economics, it must be admitted that the peculiar characteristics of gold give it a special value as an article of exchange not possessed by any other known substance, and have fitted it, in an exceptional degree, to discharge the function of money or exchange.

But Mr. Mill, in the chapter to which I am referring, proceeds at once to confound the advantages which we enjoy from having a substance of natural value as a ready article of exchange with the advantage which is derived from a common measure of values. This latter is not necessarily attached to what we call money, and exists in some cases quite independently of the coin used. Mr. Mill observes that the 'advantage of having a common language in which values may be expressed is, even by itself, so unimportant that some such mode of expressing and computing them would probably be used, even if a pound or a shilling did not express a real thing, but a mere unit of calculation.' And he mentions that 'it is said that there are African tribes in which this somewhat artificial contrivance actually prevails.' He evidently was not aware that such a system, in which the words 'pounds' and 'shillings' do not express real things, actually existed in British communities at the time when

he wrote! and, I believe, still prevails in one at least. In the North American provinces, a mode of computation that was called currency, but, in fact, was 'money of account,' was used, and I believe, is still used by the banks in Newfoundland, and was well understood in Nova Scotia and New Brunswick. A pound was equal to sixteen shillings and eightpence British sterling, and a shilling was a twentieth part of this pound, but there were no coins representing these values. I do not know the origin of the custom. By the side of it were to be found the ordinary British sterling, as well as a Newfoundland sterling—a curious offshoot, the origin of which I explained in the last essay—and computation in dollars and cents, as used in the United States. Yet, for some reason, the banks, and most of the merchants and storekeepers, from long habit, I suppose, preferred to keep their accounts in this 'currency,' which, when once understood, was quite as convenient as British sterling. A sovereign was equal to twenty-four shillings; a deduction of one-sixth would convert an amount stated in currency into the equivalent amount in British sterling. Here was to be found, in actual practice, Mr. Mill's 'conventional unit for the more convenient comparison of things with one another,' used in the presence of American eagles and half-eagles, and of English sovereigns and shillings, which were in circulation, and not corresponding exactly with any of them.*

* This leads me to say, in passing, that these and similar circumstances

After having, by a remarkable shuffling of ideas, substituted a mere system of account-keeping for tangible articles of exchange, Mr. Mill proceeds to describe the inconveniences of what he calls 'barter.' He recognises the extremely perishable character of the necessaries of life and most other property, and admits that the thing which people would select to keep by them for making purchases must be one which, besides being divisible *and generally desired*, does not deteriorate by keeping. He enumerates the many advantages possessed by gold, as answering to this description, though he greatly underrates the probabilities of change in its relative value. He points out clearly enough how the contrivance of coining

induce me to think that an exceedingly simple decimal system of money accounts, which would save much trouble to clerks, might easily be adopted in England by a very trifling change in the copper or bronze coinage, and by making tenpence equal to a shilling, and five farthings to a penny. A half-sovereign, or ten shillings, might then be the unit, and called a pound, or by any other name, while the sovereign might still remain the standard. No change would be necessary in the gold or silver coinage, but a pound (or whatever else might be adopted as the name for the half-sovereign) would be equal to ten shillings, the shilling to tenpence, and the farthing to ·2 of a penny; and thus all sums of columns of figures would be only an affair of simple addition, as with francs and centimes, or with dollars and cents; while it would be easy to remember that the old pound would be just double the new pound or unit of account. The plan seems so simple that I wonder that I never have seen it suggested. Most of the small dealings of any communities, even amongst the poorest classes, are in shillings and half-shillings, and these, and any of larger amount, would not be affected in any way; and it does not appear to me that any great mischief could result to any one, and especially not to the poor, who are the chief users of them, from conferring additional value of one-fifth part upon the bronze pence, which are only token coin of little or no intrinsic worth.

obviously suggested itself, in order that the Government, as agent for the community at large, should insure them against fraud in dealing with an article so greatly in demand, and yet so easily adulterated or imitated. He inveighs against the insupportable wickedness of Governments who abuse this trust by debasing the coinage for their own advantage. And then, in marvellous disregard that all this is in direct opposition to what he is about to say, he plunges back again into the mistake that material gold and silver coins are the same things as abstract units of calculation, and dilates upon the insignificance of the thing which he has stated to be valuable because 'generally desired, and which does not deteriorate by keeping' —'except in the character of a contrivance for sparing time and labour;' and declares it to be only a 'machine for doing quickly and commodiously what would be done, though less quickly and commodiously, without it.'

Now, except food in the abstract (for all kinds of food which are used are not necessary) and clothing of some kind, and more or less shelter according to climate, there is not a possession or article of property of any sort, of which this assertion could not be made with much greater force and truth. Mr. Mill would never have hesitated to declare that the productions of the looms of Lancashire are wealth, and possess exchangeable value, and would have regarded as an idiot any one who declared the whole of the manufactures of Great Britain to be intrinsically insignificant, except as a contrivance for saving time and

labour. And, yet, it is the naked fact that these productions, particularly those of the Lancashire looms, are, in no sense whatever, more necessary than gold, and most obviously are not so useful for many purposes, or so readily exchangeable, as the products of the mines of California and Victoria.

But Mr. Mill, not seeing Adam Smith's mistake, had become possessed by a remarkable delusion that exchange of any other article for gold was a transaction essentially different from any other barter; and that money possessed or transferred some mystical right to part of the produce of the country, which would certainly not be supposed to reside in a bale of goods. And yet, in the last paragraph of the chapter under review, with the inconsistency constantly appearing, he states that 'money is a commodity, and its value determined, like that of other commodities, temporarily, by demand and supply,' though he again falls into a transparent fallacy when he adds, 'permanently and on the average by cost of production.'

In this latter clause of the sentence, he means, no doubt, what is expressed also by Ricardo at the beginning of his chapter on currency and banks (2nd edition, by McCulloch), that 'gold and silver, like all other commodities, are valuable only in proportion to the quantity of labour necessary to produce them and bring them to market. Gold is about fifteen times dearer than silver, not because there is greater demand for it, nor because

the supply of silver is fifteen times greater than that of gold; but solely because fifteen times the quantity of labour is necessary to produce a given quantity of it.' This is one of the hasty generalisations so common in political economy, which, if weighed and examined, is found to be, so to speak, physically impossible, and which any one who has been in a gold country knows to be untrue. Gold is not a manufactured article, to make a given quantity of which takes fifteen times as long as to make another article. A gold-washer in alluvial diggings knows that what he can get in exchange for the produce of a lucky hour's work bears no sort of proportion to the labour bestowed, or the value of that labour applied to any steady manual occupation. This is more nearly allied to gambling than any other in which personal physical labour is employed. The value of the gold obtained by the digger is not measured by the labour which it costs him to get it, but by the amount of other property of any kind which he can get for it. In common parlance, the thing is worth what it will fetch.

It would be fatiguing, if it were not so curious and interesting, to wade through the mass of contradictions, inconsistencies, fallacies, and sophisms, which have been accepted as science for many years in one branch, at least, of political economy. Adam Smith's chapter on the commercial system (Book IV., chap. 1) is full of sophisms. As an example, let us take his remarks where he is arguing against the natural consequences of the more easy accu-

mulation of gold and silver as wealth. 'We do not, however,' he says, 'reckon that trade disadvantageous which consists in the exchange of the hardware of England for the wines of France; and, yet, hardware is a very durable commodity, and, were it not for the continual exportation, might too be accumulated for ages together, to the incredible augmentation of the pots and pans of the country. But it readily occurs that the number of such utensils is, in every country, necessarily limited by the use that there is for them, and that it would be absurd to have more pots and pans than were necessary for cooking the victuals consumed there;' and further on he adds, that the attempt to increase the wealth of a country by accumulating gold and silver 'is as absurd as it would be to increase the good cheer of families by obliging them to keep an unnecessary number of cooking utensils.' Five minutes' consideration will convince any one that the comparison is wholly inappropriate. The answer to his objection is simple and obvious. If the pots and pans, besides being durable, were exceedingly portable and readily exchangeable at a moment's notice, not only for victuals, but for any other commodity or for any kind of service which can be required, not only all individuals, but all nations, would find it very convenient as well as useful to have accumulations of these imaginary pots and pans. To say that gold and silver, or pots and pans, are not food and clothing is simply to affirm that one object or substance is not another. But the next best thing to possessing precisely the article which you need, is to have a store of that which, like Aladdin's lamp, will obtain for you whatever you desire. And there does seem to be something almost magical about the action of gold in the affairs of mankind.

But the economists not only deny anything magical, but they will not allow any action at all. Gold is nothing but a 'medium.' And yet, it is very instructive to observe how the experience of the world, since the later discoveries of large quantities of gold in California and Australia, has confirmed the view taken by Hume of the probable effect of increase in the quantity of money, notwithstanding that his view is repudiated with contempt by both the elder Mill and his more distinguished son. Hume supposed, as is stated succinctly by James Mill (2nd edition, p. 160), that, 'when an augmentation of money commences, individuals, more or fewer, go into the market with greater sums. The consequence is that they offer better prices. The increased prices give encouragement to the producers, who are incited to greater activity and industry; and an increase of production is the consequence.'

This is exactly what has happened. But Mr. Mill would have none of it. He proceeds to say, that 'this doctrine implies a want of clear ideas respecting production;' and overlooks the fallacy contained in his argument on the other side, which he states clearly and tersely enough. That fallacy consists in ignoring the element of human character mixed up with the matter, and in supposing that no additional encouragement is given to pro-

duction because the relative value of money is diminished; while, on the contrary, the acquisitiveness of the producer is stimulated, because he can buy more money—that is, get more gold in exchange for his goods than before, and the future eventual reduction in the value of the gold does not sensibly affect him at the time; and this is explained with clearness by Hume himself in his Essay, which is well worth reading again now, although that, also, is pervaded in parts by the singular inconsistencies arising from the resolution not to acknowledge the existence of a physical fact.

It is impossible to dissociate altogether the two subjects of money and capital; and it is this remarkable determination not to admit that an article of exchange can have an existence except in its effects—this singular fallacy where, as Hume says with reference to another point, a collateral effect is taken for a cause—which leads the economists into such strange statements and assumptions in 'fundamental propositions on capital.'

J. S. Mill says, in Book I., chap. 4:—'Capital, by persons wholly unused to reflect on the subject, is supposed to be synonymous with money. To expose this misapprehension would be to repeat what has been said in the introductory chapter. Money is no more synonymous with capital than it is with wealth. Money cannot in itself perform any part of the office of capital, since it can afford no assistance to production.' He himself substantially contradicts this in other parts of the work; but place beside the foregoing statement the following from his father's book (2nd edition, p. 146):—'If it be considered that *the annual produce* is equal not only to the whole of the net revenue of the country; *but along with this to the whole of the capital* excepting that part of it which is fixed in durable machinery, it may be understood how vast *an accession is made to the means of production* by providing a substitute for the precious metals as a medium of exchange.'

It is not too much to say that the whole of this is absolute nonsense. If money can itself afford no assistance to production, how is it possible that an accession can be made to the means of production by providing a substitute still more valueless for a useless thing?

But more than this. As the economists have settled that gold is not a substance but a medium, they are bound to show how the accumulation of 'capital'—of the savings of the nation, of products in former years—has been accomplished. And see how they do it. The younger Mill, and others after him, have said the same thing in a more diffuse style and more words; but the doctrine professed by the whole school is concisely expressed in the passage which I have quoted from James Mill; and John Stuart Mill has stated that the 'growth of capital is similar to the growth of population.'

The comparison is totally untrue, though with a specious cleverness about it which is very misleading; a little consideration will, however, show any thoughtful person

that the increase of products of manual labour can never be the same as the multiplication of animal life by breeding, except in so far as more hands may make more goods. For the comparison to be just, we should suppose that all population is every year destroyed, and every year reproduced in greater number by some force external to itself. And when we come to think out the proposition that the *annual produce* of the industry of the nation is equal not only to the net income of the country, but also to the whole of the capital—that is, to all the accumulated surplus products over and above consumption of all former years from the beginning of national existence—we see that we are called on to believe a physical impossibility. No proposition in the Athanasian Creed to a sceptical mind is half so incredible as this alleged fact. Shall we bow down in dazed adoration before this annual miracle—this yearly resurrection of a phœnix from its ashes? Let any one try to work the theorem out and see how it will stand any mathematical test. Any single industry will do as an example, for the whole can only be in this case an aggregate of single cases; and no intervention of money must be allowed, as we are told that gold is not wealth nor capital. Then let us inquire in what manner any manufactory or farm can annually reproduce the aggregate of the profits of former years. It will be seen that it can do nothing but return the value paid for the labour expended upon it in the one year, with that year's profit; and this latter is sometimes wanting. If this were not

so, the increase in quantity of mere manufactured or produced articles over and above consumption would force itself upon attention, and would continue until again wasted by decay. Because all savings, if not gold and silver, must be products of manual labour, and in any case must be, in some form or substance, products of the earth. But we witness no such accumulations—there are no such savings; and as regards the real necessaries of life, mankind as a whole now, as from the beginning, live literally from hand to mouth; the food to support life must be perpetually cultivated, and is not produced in quantity more than sufficient for immediate consumption.

I plead for reconsideration of the ordinary doctrines of political economy. The time has come when some one should be bold enough to say the truth about them, and challenge investigation of facts. We know that an early error of a single unit in complicated calculations will render valueless the result of much labour. A mistake made by Adam Smith in confounding a material article of exchange with the act of exchange in which it only takes part, has led to still greater confusion, and vitiated an infinite amount of argument; producing, among other imaginations, that chimera, the 'capital' of the economists, and the mischievous idea that paper money can be anything but a cheat and delusion, except where it is the *doppelgänger* of a substance of exchangeable value—unless, indeed, when it is clearly understood that the paper is only a national promissory note representing a promise

to pay in the future an amount to be raised from future taxes upon future national produce, and submitting to be discounted accordingly in proportion to the credit of the nation. We have, to use a sporting simile, been put upon a wrong scent; and it is not wonderful that we should be often at fault in searching for the truth in questions of economical and social science. As has been recently observed by Dr. Carpenter with more gravity of language ('Psychology of Belief'—*Contemporary Review*, December), it is necessary 'to distinguish what is just in itself from what is merely accredited by illustrious names. We must cultivate the insight which shall enable us to detect a fallacy of observation or a weakness of deduction; and determinately reject from our ground tiers every stone that is not fit to bear the weight of the superstructure we intend to raise upon them.'

I will only further remark, in conclusion, that it is worthy of notice how, while allowing ourselves to be misled by one of Adam Smith's mistakes, we have by common consent disregarded a point which he considered as chiefly important to be maintained. He argued against the advocates of foreign trade. He complained that the 'inland or home trade, the most important of all, the trade in which an equal capital affords the greatest revenue, and creates the greatest employment to the people of the country, was considered as subsidiary only to foreign trade. It neither brought money into the country, it was said, nor carried any out of it. The country, therefore, could never become either richer or poorer by means of it, except so far as its prosperity or decay might indirectly influence the state of foreign trade.'

It is plain to observers that, as a nation, we have pursued the course deprecated by Adam Smith, and I do not say that we have been wrong to do so. But, in fact, we have developed our manufactures and our foreign trade at the expense of our agricultural and pastoral industries until the nation can no longer feed itself, and until the result has been produced which was foreseen by Hume when he said (Essay on Money):—'There seems to be a happy concurrence of causes in human affairs which checks the growth of trade and riches, and hinders them from being confined to one people, as might naturally at first be dreaded from the advantages of an established commerce. Where one nation has got the start of another in trade, it is very difficult for the latter to regain the ground it has lost; because of the superior industry and skill of the former, and the greater stocks of which its merchants are possessed, and which enable them to trade on so much smaller profits. But these advantages are compensated, in some measure, by the low price of labour in every nation which has not an extensive commerce, and does not abound in gold and silver. Manufacturers, therefore, gradually shift their places, leaving those countries and provinces which they have already enriched, and flying to others, whither they are allured by the cheapness of provisions and labour; till they have enriched these also, and are again banished

by the same causes. And, in general, we may observe that the dearness of everything from plenty of money is a disadvantage which attends an established commerce, and sets bounds to it in every country by enabling the poorer states to undersell the richer in all foreign markets.'

It is certain that the period has arrived with us when our pre-eminence in manufactures is threatened by the successful competition of other countries.

A REVIEW OF MR. MILL'S FUNDAMENTAL PROPOSITIONS RESPECTING CAPITAL.

Mr. Mill is generally regarded as the great apostle of the modern doctrines of political economy, and his work is almost universally accepted as the text-book upon the various subjects which collectively form what is known as this science. He tells us that 'besides the primary and universal requisites of production—labour and natural agents—there is another requisite, without which no productive operations beyond the rude and scanty beginnings of primitive industry are possible, namely, a stock previously accumulated of the products of former labour. This accumulated stock of the produce of former labour is termed "capital."'

Now, for intelligent appreciation of the facts of economical science, it is necessary for students attentively to consider what are stated by Mr. Mill as fundamental propositions respecting capital, the full comprehension of which, as he says, is already a considerable step out of darkness into light.

I believe, on careful examination, many persons will,

like myself, be surprised to see how exceedingly erroneous most of them are.

The first of these propositions he states to be 'That industry is limited by capital.' The phrase may be objected to for want of precision, as it is susceptible of the construction that capital is antagonistic to industry; but this is clearly not what Mr. Mill intends. He obviously means that without capital there can be no exercise of industry; and he calls it an axiom which until lately was almost universally disregarded by legislators and political writers.

This so-called axiom scarcely appears to have foundation in fact. Industry is only limited by the means of life. If population is starved to death, industry will effectually be limited, but not otherwise. While there is life there may be also industry; otherwise we must suppose that there never could have been any product of industry without pre-existent capital; and as Mr. Mill himself has defined capital to be the accumulated stock of the produce of former labour, we find ourselves involved in a contradiction. Moreover, if the axiom were true, no increase of capital could ever be obtained, supposing it to be pre-existent in certain quantity. That quantity would be necessary for the support of a limited extent of industry, and would maintain no more; and the industry, being so limited and dependent on the pre-existent capital, could not increase the quantity of capital. If it is capable of doing so, then it is obvious that capital proceeds from industry and that no limitation of industry is caused by

capital, which itself is only an effect of industry as a cause. Mr. Mill, in fact, puts the cart before the horse in his first fundamental proposition. He goes on to say, in his explanation of it, that the only productive powers are those of labour and natural agents—that there can be no more industry than is supplied with materials to work up and food to eat—that, self-evident as the thing is, it is often forgotten that the people of a country are maintained and have their wants supplied, not by the produce of present labour, but of past—and that, of what has been produced, a part only is allotted to the support of productive labour, and that there will not and cannot be more of that labour than the portion so allotted (which is the capital of the country) can feed and provide with the materials and instruments of production. From these and his subsequent observations it is obvious that he is not alive to the contradictions in which he is involved.

It is true that there can be no more industry than is supplied with materials and food to eat; but he overlooks the fact that all materials are the products of the earth in some form or other, always existing without reference to labour; and that there should be food enough in existence for immediate consumption is an essential condition of any human life at all; no initiatory stage of human transactions is conceivable in which the race as a whole, or any part of it, was without food to support life, even in the shape of wild fowl or animals, or the natural vegetable products of the earth. There was, therefore, no time when the

materials and food to eat were not present to support industry; but these, or at least these in this shape, are not what Mr. Mill or any one else means by capital; and it is plain that so far from industry being limited by capital, the industry must precede and produce the capital in any case where it is accumulated. When Mr. Mill, in the next place, says that it is forgotten that the people of a country are maintained, not by the produce of present labour, but of past, he drops out of sight the fact that this is only true to a very limited extent. If the continuous artificial production of food necessary in present states of society were interrupted for a very short time, we should know that the product of past labour is sufficient only for our support for a very limited period. We should find that whatever else may constitute wealth or productive labour in the eyes of the economists, food is the primary necessity of life, which is not and cannot be accumulated for long, nor in large quantity, and never really can form any great portion of the savings known as capital. Yet without the food capital would be valueless. In fact we know that no one practically accounts food as among his savings. Whoever possesses more food than he needs for the consumption of his own household for such a time as it will probably remain undecayed, is only too glad to part with the surplus to others in exchange for some less perishable property; and I suppose that it will be no exaggeration to assume that at no one time is there much more food in actual existence than would support mankind for

a single year. And further, when Mr. Mill states that a part only of what is produced by past labour is allotted to the support of productive labour, and there cannot and will not be more of that labour than the portion so allotted (which is the capital of the country) can feed and provide with the materials and instruments of production, he uses language exceedingly sophistical and misleading. He speaks as though any portion of an existing community were likely to remain unfed unless the capital, that is the past savings, is used to feed them; but the major part of past savings consists of substances which cannot be used as food; and food, as I contend, forms in fact little or no portion of capital. Except in very extraordinary circumstances, producing famine, we may suppose that all the community will be fed, no matter upon what occupation they may be employed. They will first and naturally seek the occupation which will ensure them food. It is not capital that feeds them. Capital can only determine the direction in which their labour shall be applied. It is accumulated in substances of exchangeable value, of the least perishable nature, of which gold, from its peculiar properties, has been generally selected as the most eligible for the purpose. The labourer or mechanic gives his labour in exchange for gold, which he can again exchange for food and other necessaries; and the person who gives the gold can determine by agreement the purpose to which the labour shall be applied—to this production or employment, or to that; but this is all. No future production

can be accomplished without fresh labour; while much may be produced without any capital at all, if the workmen combine, and if only food can be procurable, which in many cases it may be, from the natural animal and vegetable products of the earth.

But, it may be urged, when Mr. Mill says that industry is limited by capital, that is, the amount of capital, he means that it is limited by the amount of machinery or apparatus and raw material which may be applied to the purpose in view. To this I reply that it is not accurate to term this a limitation of industry by capital. Such a state of things is only limitation of a particular kind of production by the lack of the special requisites necessary for that purpose—which may occur, while, at the same time and place, there is abundance of food, and of wealth or capital, or the savings from former industry, applicable to other purposes for which both labour and capital may be used. As, for instance, when during the American war the cessation of the usual supply of raw cotton put a stop to the production of the Lancashire looms. No one supposed that this effect was caused by lack of capital, of wealth, or savings to continue the industry. These existed in sufficient abundance, of exchangeable value, whether in money or in goods. But the accumulated savings from former labour were here useless for further production unless they could be exchanged for another thing which could not be obtained at the time from the usual source of supply.

As a broad, general principle, then, we see that it is incorrect to say that industry is limited by capital. And speculations upon the precedence of capital or industry at this stage of human affairs are scarcely more profound than the wisdom of the owls—those birds being absorbed, according to a fable I have heard, in contemplation of the question whether there was first an owl and then an egg, or first an egg and then an owl. If further illustration were, however, wanted, it might be found abundantly in the history of many colonies and settlements. The early settlers, of course, needed some food, some clothes, and some shelter; but these were of the simplest, and many privations had to be endured. Little or nothing of previous savings was brought into a country which, when first occupied, was only a savage wilderness, where nothing was to be bought, and there were no labourers to employ; and if anything was to be done or procured, it had to be done or procured by the settlers themselves. But from very small beginnings property was gradually collected—such of it as was perishable exchanged for what was more useful and durable—and, finally, the surplus savings exchanged with other communities for gold, until, for instance, now, in less than forty years, there is scarcely a more wealthy or prosperous community of the same number in the Queen's dominions than the colony in which I write.

That capital is not in all cases indispensable to industry may be seen also in instances where nations have

consumed almost all their exchangeable savings, and yet contrive to proceed with further production by the aid of paper currency, which, in fact, is nothing but promissory notes—discounting the produce of labour yet unperformed. It is necessary to remember that very little of what is known as property can be applied to the remuneration of labour. Of real property none at all can be so applied. It is not divisible, and is not movable. In fact, scarcely any commodity can be used for the purpose, except gold and silver, in the certified quantities of certain quality, which we call money or coin.

Now, in the United States of America, to say nothing of European nations, we find such a state of things in actual existence. The exigencies of the civil war caused the portion of their accumulations, possessed in the shape of gold, to be exchanged with other nations for more perishable commodities, which have been consumed, until little has been left of previous savings which is capable of being exchanged for fresh labour. The nation has been obliged, by what may be regarded as a domestic arrangement within itself, to enable the several members of the State to give each other credit, on the security of future production, by the issue of paper notes of nominal value, which do not represent existing property, but are, in fact, merely promises to pay at an indefinite future time. No doubt a time may arrive, perhaps must arrive, when the foreign trade of the nation will be hampered, at least, to the extent of restricting imports to the amount which

can be paid for by commodities other than gold; inasmuch as foreigners will not readily take promises to pay which are useless to them out of the United States. But it does not follow that this disappearance of capital, or accumulation of savings, will at all diminish the industry of the nation itself, so long as it is capable of producing food and other necessaries of life from time to time, from year to year, as occasion requires. In fact, we know that it has not limited industry; and, on the contrary, it may be said that, in the absence of accumulations of food, or commodities which may be exchanged for food, industry is more imperatively enforced to obtain the means of living.

I must not be understood, however, as failing to see that the possession of accumulated savings—of capital—confers great advantage in industrial pursuits, in so far as it enables the possessor to direct masses of labour into particular channels, for special objects very beneficial to himself. But it is out of the questions concerning the degree to which this mode of operation benefits him, rather than the labourers employed, that the difficulties arise which beset the relations of capital and labour; and this kind of limitation to industry is quite a different thing from that implied by Mr. Mill's generalisation.

Mr. Mill proceeds to comment upon what he regarded as the erroneous belief that laws and governments, without creating capital, could create industry; and, further

on, he states explicitly that they can create capital by laying on taxes and employing the amount productively, and in this way can create additional industry. Here, again, we are called upon to admit that an effect precedes a cause. It is totally incorrect to say that capital can be created by laying on taxes. Taxes are merely contributions in small quantities of existing savings, to be again distributed among the community; it may be in very different and much more beneficial proportions among the same mass, though this effect will depend upon the character of the taxation and the purposes to which the contributions are applied. The money in which the taxes are paid is never destroyed; but it is wholly impossible for any government, by taxation, to create the slightest addition to any single substance then in existence. If, by the application of the capital so collected, industry is directed into so-called productive employment, any accession to material property previously in existence must be obtained from new labour, which had not been applied at the time of the collection of the taxes; and all that it is possible for the government to do is to apply that labour to one purpose rather than another. So, likewise, it is a gross fallacy to assume, as is done by Mr. Mill, that laying taxes on income or expenditure, and applying the proceeds towards paying off the public debts, would be equivalent to employing the amount productively. If the whole of the public debt were wiped off to-morrow by a stroke of the pen, the

nation, as a whole, could be no richer than it is now, except in so far as it got rid of the claims of foreign fundholders. Some individuals would be ruined for the eventual advantage of others. Not one ounce of the precious metals, nor of food, nor one shred of other property would be added to what now exists; no augmentation whatever of available capital would take place. The national debt in one, and to the nation the most important, sense, is no debt at all from the nation, being quite as much a debt to the nation. It is merely a statement of account between members of the same community, recording the obligations of the body as a whole to individual members of the partnership, who have lent money or goods for purposes of common interest; and it can only determine the manner in which existing property shall be distributed. To suppose that capital can be created by extinction of the national debt is to suppose that a man of large business transactions could increase his wealth by debiting in his books an amount against a mining speculation, which he credits to a ship's account. The proceeding may show that the ship was profitable, while the mine caused loss; but it will not add one farthing to the total of his cash account.

It is not necessary here to follow Mr. Mill through the third section of the chapter to which I am referring. His arguments appear to me to be based on a radical misconception of the true character of the national savings which constitute capital, to which I have already

adverted in a previous paper,* and I need not recapitulate my comments upon that misconception. But it is curious to note, in passing on to the consideration of another of his 'fundamental propositions,' the singular inconsistency of Mr. Mill's statement that every increase of capital gives, or is capable of giving, additional employment to industry without assignable limit, and the fact that all capital is the result of saving from former labour, with his anxiety—so constantly shown throughout his work—with regard to the effect of the increase of population. One would suppose that, as labour is the source of all wealth, more population would imply more labour, and the greater accumulation of savings; and as more capital would afford more employment without assignable limit, there need be no fear of the effect of greater population; but for some inscrutable reason, this is not the conclusion at which Mr. Mill arrives by the help of his own arguments, although what the facts of the case are, and the experience of multitudes, may be seen from observing the course of events and the struggles to obtain population in North America and Australasia.

Mr. Mill's second fundamental proposition is that all capital is the result of saving; and his third that, although saved, and the result of saving, it is nevertheless destroyed. With the former of these two we need not quarrel; but with all deference to Mr. Mill's reputation, the two together constitute a silly paradox, and this silly paradox

* 'A Plea for Some Facts.'

we are called on to accept as science. The statement involves a physical impossibility. It matters not whether a material product be consumed by the producer or some other person—that thing cannot be saved. It is a marvel that the keen and polished intellect attributed to Mr. Mill was not sufficiently penetrating to enable him to perceive the absurdity of the belief which he was inculcating. The confusion arises from the singular determination not to admit—although gold is a commodity—that it can have any substantive value as exchangeable property. It is necessary to remember that all the commercial or economical transactions of mankind consist of nothing more than the exchange of one article of value for another, or of the gift of some article of exchangeable value, more or less necessary, in exchange for labour, or service of some kind. All the products of human manual labour are material substances. It is in the savings of these, at any particular point of time, that the capital at that time will consist. We must remember, too, that these possessions or capital are the product of *past* labour which can never be again applied; and if these products are consumed, the *same* can never be called again into existence, though they may be replaced by like substances produced by new labour. Now, suppose all industry to be arrested on some one day, and to be suspended for an indefinite time, it will soon be found that the greater part of the possessions in existence on that one day are required for more or less immediate consumption, and will be speedily destroyed; and if not

so consumed, will decay, until nothing is left of the stock or capital except those things naturally imperishable. Let A, B, C, and all the alphabet down to X, Y, Z, represent various commodities, from very perishable ones, like bread and meat, represented by A, B, to very durable ones, like gold and silver, which may be Y, Z; it is obvious that the possibility of accumulating and preserving the products of past labour will diminish from Y, Z, up to A, B. It is as though one should every day pour into the same receptacle a portion of sand, of oil, of water, and of ether. It would not surprise him that in a short while he should find little but sand, and no ether at all. It is so in the exchanges of the world of things of value in existence at the same time; and it is utterly misleading to introduce into the computation things which may be produced subsequently to that time by new labour. These latter can never form a portion of the *former* capital, though the new labour may replace for future use necessaries of which the supply has been exhausted. But if the consumption or destruction of these amounts to the number or value of ten in a given period, and in that period are replaced only by the same number, accumulation of these cannot occur. My argument upon this point is, that all transactions in the commerce of mankind are only matters of barter or exchange—that gold and silver are part of the movable property of mankind—that of this movable property the most durable will last longest and be most readily accumulated; and that, as everybody is anxious

to get gold, because it will keep best and is always exchangeable, savings will naturally fall into the form of gold. This being so, and the capital of the world being really the savings of the world, on which point I agree with Mr. Mill, I say that, as a physical fact, capital will consist chiefly of gold. As a matter of fact of another kind, no doubt labour is the source of all wealth; but we are too apt to mix up other questions which are metaphysical with questions of simple physics when we begin to talk of labour and industry. We forget that the property in existence is the result of labour which has been already expended, and which same labour can never be again applied. The question to be answered is, how much and what kind of the produce of past labour retaining exchangeable value remains to mankind after the lapse of a few years, except gold. Land in this question can scarcely be considered, because that has always been in existence and will always remain, although in many instances much impoverished by cultivation. Mr. Mill admits that very little else remains; and he and his disciples are obliged to resort for explanation of the existence of capital to a miraculous annual resurrection of what has been destroyed. This is untrue. The same old products of former labour are not reproduced. And if gold does not represent the savings of former years, then we, in fact, have no accumulations of circulating capital of any consequence. Mr. Mill's conception of it is chimerical. His proposition involves a supposition similar to this, that, if I now drop

my manuscript into the fire where it is consumed, I shall also have saved it. It is true I may reproduce my essay by re-writing it; but for this purpose I shall have to use fresh paper, fresh ink, and new labour. The mental and manual exertion which I may employ to-morrow will not be the same which were expended yesterday. There seems to be a tendency in words to deviate from their original meaning. We lose sight of the fact that capital means things saved; and because the word is sometimes used to signify any advantage, as when we speak of political capital, it has almost become synonymous with some immaterial abstraction. To permit ourselves to be misled by this, is almost as absurd as it would be to suppose that a table really means a dinner, because when it is said that a man keeps a good table, it is meant that he gives good dinners. But confusion as to what he regards as being saved is repeatedly apparent in Mr. Mill's contention. In speaking of what is done with the capital which he represents as being consumed (Vol. I., p. 87), he says, 'Part is exchanged for tools and machinery, which are worn out by use; part for seed or materials, which are destroyed as such by being sown, or wrought up and destroyed altogether by the consumption of the ultimate product. The remainder is paid in wages to productive labourers, who consume it for their daily wants; or, if they in their turn save any part, this also is not generally hoarded, but (through savings banks, benefit clubs, or some other channel) re-employed as capital and consumed.' Now, if

labourers save any part of the capital by the aid of savings banks and benefit clubs, that part of the capital must be money, and if re-employed as capital cannot be consumed, but only again exchanged. And, although the machinery and the tools for which the capitalist has exchanged other part of his capital will wear out, the capital which he gave will have been also money, and that will not wear out, but will again be exchanged; and therefore it is absurd to say that the capital has been consumed so far as the community at large is concerned, though the individual who had it has consumed his temporary use of it.

There is something amusing in the simplicity with which Mr. Mill states that 'to the vulgar it is not at all apparent that what is saved is consumed.' To them, he says, every one who saves appears in the light of one who hoards. He fails to see that no one does, or, in fact, can, hoard to advantage anything but gold; and that, according to his theory, it ought to be totally immaterial whether that is hoarded or not, it being useless for production. In any case it is indestructible. The only evil which can arise to the general public from hoarding gold is from keeping an article of exchangeable value out of the circulation to which every such article contributes. Even to the possessor of the hoard the loss is only of the interest—formerly called the usury—which would be given to him for the temporary use of the gold as an article of exchange; and presumably its services in this capacity must be valuable or they would not be paid for. But all Mr. Mill's

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arguments in favour of saving any thing but gold are in direct contradiction to those which he uses in support of the consumption of what he regards as capital; and there is almost a puerile misapprehension of the true state of the case when he says that it is the intervention of money which obscures to an unpractised apprehension the true character of these phenomena. One might almost as well urge that it is the intervention of water which prevents a correct understanding of the action of a water-mill; and it would be equally absurd to contend that the power of the water is not to be taken into account because the same water can drive several wheels in succession, as to overlook the exchangeable value of gold because it can be exchanged again and again. The gold, in fact, is the power which drives the wheel, but it is not the wheel of circulation itself. Most undoubtedly, all expenditure being carried on by the use of a special, most generally used, article of value, that article comes to be looked upon as the main feature in the transaction—as much so in the case of gold as it would be in the case of wool or wheat and no more; and since the article of gold does not perish, but only changes hands, people *do*, most naturally, fail to see that any destruction of that property takes place in the case of what is called unproductive expenditure. The money being merely transferred, they *do* most truly think that *that* wealth has only been handed over from the spender, whom Mr. Mill calls the spendthrift, to other people who may use it as they choose, for any purpose, productive or otherwise,

just as readily as any one previously. This is by no means confounding money with other wealth, but is distinctly recognising the special character of this form of wealth. The wealth which has been destroyed, as Mr. Mill says, was not the money, but the wines, equipages, and furniture, which the money purchased; and from these no return whatever could have been obtained except by their purchase in this manner for destruction; and therefore society is *not* poorer by the amount so destroyed.

The whole of Mr. Mill's subsequent argument, in the place to which I am referring (Vol. I., p. 90), amounts in effect only to this, that society should put an end to the production of all articles of luxury, and that labour should be applied only to the growth and manufacture of necessaries for the majority of the community, in order that all may have enough of these. I have not the slightest objection to offer to this as a matter of morality; but it appears to me that, what we call economical laws, cannot ensure it; and certainly the operation of free trade and modern commercial policy have a directly contrary tendency.

In a recent article in the *Fortnightly Review*, Professor Fawcett discusses the effect of an increased production of wealth upon wages, which it is admitted in many cases have not been advanced at all by the unprecedented growth of the trade of the country. It appears to be regarded as extraordinary that the working producer should not have been benefited by this remarkable

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augmentation of national wealth. It does not seem to occur to Mr. Fawcett that there is no reason why the profits on national exchanges should flow into the pockets of the manufacturer or of the labourers whom he employs. In fact the competition to which he is subjected with rival producers in other countries in selling to the exporting merchants may, and does, compel the manufacturer to keep down wages at a point which will enable him to sustain such a competition. The profits which accrue on the successful exchanges of the commodities after they are produced, for other consumable commodities, and finally for gold—into which commodity all profits will eventually gravitate, if I may be allowed the expression—will be found in possession of the mercantile or trading rather than the manufacturing or producing class. The first action of free trade is to produce this result. The subsequent and eventual tendency is to promote the migration of industries to places where they can be conducted most cheaply by cheap labour. From a cosmopolitan point of view this effect need not be deprecated. To the world at large it is immaterial whether cotton manufactures are carried on in India, by British skill and capital and native labour, or in the Southern States of America, by American enterprise and imported Chinese labour; though the Lancashire cotton spinners will possibly look at the matter in another light.

Mr. Fawcett, adopting the prevalent theory that gold and silver can have no other effect upon the world's

exchanges than that of a so-called medium, through which they are transacted, does not recognise the effects which flow naturally from the fact that labourers are paid for their labour in gold, which is never destroyed, and from the character of this first exchange affecting all subsequent transactions; but proceeds to consider the case, as usual, 'without the intervention of money.' He accounts for the results by assigning three causes—increase of population, the displacement of labour by machinery, and the export of capital. But it may be doubted whether either of these can have any perceptible influence in the matter. The more numerous marriages caused by higher wages, and any real increase of population in consequence, are probably more than counterbalanced by the emigration of adult males in the very flower of manhood during the last twenty-five years; because very few of the children of marriages contracted during that period can yet have arrived at an age when they may render effective assistance in any industry. As to the effect of machinery, Mr. Mill has himself observed that hitherto 'it is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being. They have only enabled a greater population to live the same life of drudgery and imprisonment, and an increased number of manufacturers and others to make their fortunes.' And it frequently has been urged in defence of machinery, that so far from diminishing the demand for labour, it has created new sources of employ-

ment and need for labour. If machinery does cheapen labour or throw men out of employment, it must be admitted that improvements in machinery are not beneficial to the labouring classes. With respect to the last cause assigned by Mr. Fawcett—the export of capital—it ought to be almost a sufficient answer to observe that, if capital has been exported to a large extent, then *pro tanto*, the wealth of the country has been so exported, and is no longer in Great Britain. It is again necessary to insist upon it that capital is saving, and saving can only consist of material things. If this material wealth has been exported to other countries, all the advantages connected with it are transferred also, just as much as the material advantage of the possession and use of a carriage and horses will be transferred to another person if I lend him mine, though I may remain the nominal proprietor, and may expect to have my property returned to me at some time, with or without compensation for the use of it. But it may also be noted how inconsistent is this latter suggestion of Professor Fawcett's with the principles laid down by the school to which he belongs. If money is not capital—if capital consists only of the increased value given to farms by the improvements to land and buildings, of development of factories and a greater number of them, of more numerous and better dwellings, and of a diffusion of general prosperity among the mass of the people, so that they who were previously badly housed and fed live in more comfort, and fare more plentifully, if not luxuriously—then in what manner would it be possible to export this kind of capital? But here again we have an instance of the remarkable contradictions apparent in the doctrines of the economists. They are constantly coming into contact with facts, and base arguments upon them which are at variance with the theories they endeavour nevertheless to maintain by an effort to make the facts coincide with them.

Mr. Mill observes that all the ordinary forms of language tend to disguise that everything which is produced is consumed, and that by the language used, the idea suggested is, that the riches transmitted from ancestors and predecessors were produced long ago at the time when they were first acquired, and that no portion of the capital of the country was produced this year, except such as may have been added then to the total amount. He says that the fact is far otherwise. He seems to pay no attention to the probability—to use no stronger term—that this language embodies the common sense, that is, the common agreement from experience, of societies; who know that the land, from the products of which the incomes and subsistence of all are in some way derived, was always in existence; and, leaving land as a possession which is peculiar in its character out of the question, that many products of human industry are more or less durable, and some counted as the most valuable for exchange, are most imperishable, as are gold and silver; and that these *are* transmitted from one generation to

another. It is idle to pretend that civilised nations do not now possess an enormously greater quantity of gold and other more or less durable property than was accumulated fifty years ago, which will be transmitted to our posterity; and equally delusive to ignore the consequences to industry, production, and commerce, which is only exchange, produced by this possession. This large accession to the quantity of the precious metals, of which the value in exchange is still recognised, has produced a twofold effect, in first augmenting the purchasing power of portions of the human race, and then stimulating the productive industry of other portions, until large additions have been made to other forms of wealth and industry, so that much more of all wealth exists now than formerly. But these causes do not necessarily ensure, and, in fact, have not produced any more equal distribution of goods. On the contrary, the tendency appears to be in the opposite direction.

The perpetual consumption and reproduction of capital, according to his theory, Mr. Mill thinks, affords the explanation of what has so often excited wonder, the great rapidity with which countries recover from devastation, caused by war or other calamities; and he says that there is nothing wonderful in the matter. But there would be if we accept his explanation. It is totally fallacious to speak of a *vis medicatrix naturæ* in such a question. Nature will do nothing here; all must be accomplished by human labour. All that his argument

shows, if it shows anything, is that there is no such thing as capital, and that there is no necessity for it. If industry were limited by capital, and money, that is, gold and silver, is not capital, then the devastation having destroyed the capital, industry must cease and nothing further could be done. But the fact is that the wealth destroyed would, in any case, have perished sooner or later, and needed to be replaced by other wealth, as Mr. Mill admits; though he forgets that it cannot be the same wealth, and that this must always be done by new labour not before applied; and the real savings of the former labour of the inhabitants embodied by exchange in gold and silver are not destroyed. Where these have been plundered from the inhabitants, their means of procuring in exchange for them the necessaries of life, or the materials for resuming their usual occupations, will have been diminished; but treasure we know, on almost all such occasions as hostile invasion, is immediately and easily removed, or concealed in places of security. And it by no means unfrequently happens that their store of precious metals is added to, at least in modern times, since the harsher modes of warfare have been abandoned, by the expenditure of a foreign army during the time of the hostile occupation. Prince Bismarck practically recognised this truth, when he insisted upon the indemnity from France of £200,000,000 of gold as compensation for the Prussian war expenses. It was the only way to recover money which, in fact, had been transferred to France.

But as an instance of warfare on the largest scale, where the evils of such a struggle, prolonged for nearly five years, must have been felt in all their intensity, and yet where there was no introduction of foreign money or foreign supplies, which were not raised as loans, or paid for by the inhabitants of the country which was the seat of war, it will be worth our while to consider the effects produced by the gigantic civil war in the United States.

Let us think of what actually happened. Somewhat more than a million of lives, I believe, are said to have been lost; and expenditure, which was defrayed partly by loans of money and partly by paper issues, was incurred to the extent of more than £500,000,000 sterling. The contest was between people of the same nation, and it may be assumed that no important addition was made from without to the population to be supported during the time of the war. On the contrary, it appears that consumers to the extent of a million, or whatever was the real number, were removed. Of the combatants and others engaged, it may be assumed, I think fairly, that all would have been fed and clothed if there had been no war; and it would probably not be too much to say that their actual consumption of commodities and comforts, not to say of luxuries, during the campaigns, was really less than it would have been in time of peace. The consumption of the necessaries of life is varied very little by the different occupations in which men are engaged, but the diminution caused in some respects during a state of war would

probably nearly counterbalance the destruction from waste which, no doubt, is sometimes unavoidable. The usual consumption would be almost entirely of things like arms and ammunition, and warlike equipments of various kinds, the destruction of which would scarcely be felt on return of peace. The loss of these, and of the products which it may be supposed the men under arms might during the war have developed from the soil or raw material, if not so engaged, will really constitute the whole diminution of property caused by the war, except in so far as buildings or permanent structures may have been partially injured, or other property vindictively destroyed. Of the accumulated savings of the people existing at the commencement of the war in gold and silver none will have been destroyed. The chief evils of war, apart from loss of life, consist not so much in destruction as in the more or less violent and sudden dislocation and redistribution of capital. Even for this, and for losses of some property, it will be seen further on that the nation is not without compensation. But these masses of men under arms for a national purpose or the common weal are to be paid, fed, and clothed, and furnished with munitions and materials of war at the common national or public expense, not at their individual or private charges. This expense must be defrayed from the public chest, or what used in the early days of the West Indian Colonies to be there expressively termed 'the common stock.' The common stock not being sufficient for this sudden emergency, money must be raised by taxes,

which are only contributions or subscriptions from *all* the nation to compensate that portion of it which performs a particular service, and to pay for the cost of materials for performing it. These contributions of taxes being in money, would in any case not be destroyed, but only again distributed among the nation as a whole. But for reasons, among which political considerations are not the least, the Government, as agent for the nation, regards it as expedient to meet the exigency by a loan rather than by present taxation, thus deferring the period at which each individual taxpayer of the nation shall contribute his quota. The necessary amount is, therefore, in the first instance, raised by the nation as a body borrowing from some of its citizens what is required, and so far nothing is done beyond redistributing the property of the society as a whole. But the accumulations of individual citizens are not sufficient to furnish enough in a lump for the purposes immediately in view, and recourse is had to loans of money from members of foreign nations, on the security of bonds bearing interest to be repaid at a future time. Now, the immediate effect of this is really to bring more money, that is more capital of an imperishable character, into the United States; the persons who have lent it having nothing in exchange for it but promises to pay it back at a future time, with interest for the use of it in the meanwhile. The nation is therefore absolutely in possession of more capital than it had before, though under an engagement to return it at a future period. Contractors make

fortunes; more money circulates among the money-dealing classes; but the Government, as agent for the nation, soon finds itself again in need of funds for carrying on the war; because the continuously increased outflow from the public chest, or common stock, is not compensated by simultaneous income or contributions—what we call taxes—from the several parts of the whole to that common stock. The nation is really much richer; but with a large public debt. Almost all the advantages which are attributed to an abundance of capital in a country, by any school of economists, existed, and would have remained, but for some collateral circumstances; and even after making allowance for them, the extraordinary prosperity of the United States since the war has been notorious. More money was wanted, however, by the Government, and the device was resorted to of legal tender notes, or inconvertible paper currency, not bearing interest. When issue of such a currency takes place—which is really nothing but the issue of national I.O.U.s—the real currency or circulating capital of the country will speedily disappear before it, to do elsewhere what cannot be done by the I.O.U.s. The exports of the country being greatly diminished, and not being sufficient to meet the cost of large importations of expensive materials of war, the difference of value could only be paid in Europe in gold, and great part of the gold accordingly went to Europe for that purpose; while other circumstances connected with the deranged trade led to exportation of other part; until 2

almost the only so-called money left in circulation was an aggregate of small promissory notes, redeemable at no specified period, amounting even in 1873 to $356,000,000. These promissory notes, like all others, could not be protected from the usual effect of credit, and had to submit to discount, at one time of as much as sixty per cent.; for it is necessary to recall to mind that what was termed a rise of prices in the United States was nothing but the low value of this inconvertible paper currency. It really represented, and still represents, nothing but the anticipation of future products of future years, perhaps of future generations. But, as in like cases with individuals, these paper issues do produce a temporary accession to the means of the nation, just as a man will benefit by the property he can get in exchange for a promissory note which will have to be paid after his death by some one else. There is no way, as Mr. Mill has said, in which a general rise in prices, or, in other words, depreciation of money, can benefit anybody, except at the expense of somebody else. And in this case the nation, as a whole, benefited at the expense of individuals. It was an unjust form of taxation. Individuals paid by the State were forced to take these notes at their nominal value; while, so soon as it was sought to exchange them for gold or other commodities, they could only be passed for half that amount. Private creditors suffered heavily. The only mode by which public creditors, contractors, and others could protect themselves was by charging more than

double what would have satisfied them if paid in gold. The Government, therefore, as agent for the people in this case, had to do what was tantamount to the proceeding of the young spendthrift who takes forty pounds and a worthless picture for a *post obit* for one hundred pounds. But, like the young spendthrift, the nation has temporarily benefitted by the present addition to its means. Mr. Mill has said that 'substitution of paper for metallic currency is a national gain; any further increase of paper beyond this is but a form of robbery.' I think him entirely wrong in regarding it as a real—that is, a permanent gain. It is not possible to make real value out of nothing. His mistake arises from regarding money as only a medium of exchange, which it is not—it is a substantive article of exchange. Paper money can no more be a permanent gain to a nation than a promissory note can be so to a merchant who makes it; but like the promissory note, it may afford immense transient advantage, as has, in fact been seen in the United States. It has had the temporary effect of adding circulating credit to the extent of more than seventy-two millions of pounds sterling to the mercantile resources of the nation, which has used abroad the gold displaced at home.

And this view is not inconsistent with the fact that inconvenience is now felt in the United States from the attempts to contract the currency. The gold and silver money which has been superseded by the paper has been exchanged in foreign trade for other forms of wealth, some

of which have been destroyed, and the rest cannot answer the purpose of money so well, and especially do not permit accumulations of savings to be made in their form, except to a limited extent. The nation is rich, but not in gold and silver. Savings may be made in the shape of the national paper currency, or promises to pay, so long as it remains in circulation and retains credit; but as it falls in to the public chest for taxes or anything else, and is laid aside without re-issue, unless it is replaced by gold, so much exchangeable credit is removed from circulation, and the lack of the function naturally discharged by gold begins to be felt; and the inconvenience must continue until excess of value of exports over imports and the receipt of the difference in gold again restores as much as is needed of that commodity to embody the savings—the capital of the nation.

Consideration of these circumstances will enable us to understand the effect of Government loans for war purposes, or other expenditure which is called unproductive, and why, as Mr. Mill admits was the case, 'the years in which expenditure of this sort has been on the greatest scale have often been years of great apparent prosperity; the wealth and resources of the country, instead of diminishing, having given every sign of rapid increase during the process, and of greatly expanded dimensions after its close, as was confessedly the case during the last long continental war.' So long as we are misled by such suppositions as that 'the whole amount borrowed by the Government is

destroyed, and was abstracted by the lender from a productive employment in which it had actually been invested,' we can never ascertain the true state of the case. The amount borrowed is borrowed in money, which is not destroyed, but put into immediate circulation; and if in the possession of the lender to lend, it could not then have been invested in any productive employment. We talk of 'investing' money, and 'locking up' capital, as if some such thing was really done as enclosing it in something else, or hoarding it for a time, whereas there is no more certain mode of passing money from hand to hand than by exchanging it for other property, which is what we call investment.

Mr. Mill states that, according to the principles he lays down, these loans must tend to impoverish the country; yet he cannot help the admission contained in the passage quoted above, that they did not in fact do so. It is strange that he should have been so prejudiced by his theories as not to see that the facts must be right and his theory wrong. Instead of inquiring why the facts oppose the theory, and where the explanation is to be found for this remarkable discrepancy, he disingenuously endeavours to give reasons for 'the causes which operated, and do commonly operate, to prevent these extraordinary drafts on the productive resources of the country from being so much felt as it might seem reasonable to expect.' I say, disingenuously, because it is disingenuous to assume that there has been any extraordinary draft on the re-

sources of the country in the face of evidence that 'the wealth and resources of the country, instead of diminishing, have given every sign of rapid increase during the process, and of greatly expanded dimensions after its close.' If the vast sum of the nominal war debt of the United States really represented the value of property, of capital, of accumulated savings from past labour, absolutely and truly destroyed by the war, then indeed the nation would have been impoverished to prostration. But it does nothing of the kind. A part of that sum merely represents national property re-distributed subject to certain obligations *inter se*; a part represents money borrowed from foreigners, which—or the property which has been bought with it—still exists in the possession of the nation; and the rest is composed of the paper currency or circulating credit by which future contributions from individual citizens to the common stock have been discounted; these latter never having represented any true property either in gold or goods.

We now pass on to Mr. Mill's fourth fundamental proposition—that demand for commodities is not a demand for labour. It is no wonder, as Mr. Mill says, that political economy advances so slowly when such a paradoxical question as this still remains open at its very threshold. The proposition is a sophism, and Mr. Mill's treatment of it is most sophistical. Of course, a commodity is not the same thing as labour. A commodity is the product of labour now expended and dead,

X it represents however the gold sent abroad, which gold is yet to be recovered

and the commodity remains in place of it. Water is not a pump. A demand for water is not, in the first instance, a demand for a pump; if water is to be obtained from a bucket already supplied there is no demand upon the pump; but if none can be obtained but from a pump, then, in fact, a need for water does most emphatically make a demand upon the pump-handle. If we can imagine a suspension of human affairs, in which all production had ceased, then a demand for commodities would certainly not be a demand for labour. But we know that the business and transactions of mankind are in a state of continuous flux, and the consumption of commodities to-day or this year does create an effective demand for labour to produce more for consumption to-morrow or next year. If this were not so, indeed, the imaginary spendthrift—that *bête noire* of the economists—would, on the ground of their own arguments, have a full and complete answer to all their reproaches. He might logically say—You state that a demand for commodities is not a demand for labour. I do not want labour; I want commodities, and give capital in exchange for them. Take your capital and employ the labour to produce anything you please, and leave me unmolested to enjoy the commodities I consume; I do you no harm. And this answer is, indeed, true as regards any commodities already in existence. The labour which produced them has been used, and can never be again applied to any purpose; and if the commodities which have been the result cannot be

profitably exchanged, the labour is for ever lost. No abstinence from consumption of a luxury—be it velvet, lace, or champagne—can enable that thing, velvet, lace, or champagne, to be transmuted into food or common clothing, or enable the labour which made it to be used again for the production of any more necessary commodity. The past is irrevocable. All that can be done at any point of time is to determine how labour shall best be applied in the future for the good of the social body. And this is done by demand caused by consumption. It may be safely assumed that there will be no demand for superfluities until the necessity for that which cannot be dispensed with has been satisfied.

But it is a sophism to say that 'manufacturers and their labourers do not produce for the pleasure of their customers, but for the supply of their own wants; and having still the capital and the labour, which are the essentials of production, they can either produce something else which is in demand, or, if there be no other demand, they themselves have one, and can produce the things which they want for their own consumption.' The pleasure of their customers does determine what is produced, and it is simply absurd to pretend that if it were the united pleasure of consumers no longer to wear cotton clothing, it would be easy for the Lancashire manufacturers to remove their capital into some other manufacture. They could do nothing of the kind. *Their* present capital—the buildings, machinery, and appliances

for making cotton goods, for which they had exchanged their former capital in gold and silver—would be totally useless for any other purpose; and, as the making of cotton goods is supposed to cease, no one would or could have any desire for the possession of this property, and it would not be saleable. It is important to remember that, in spite of what Mr. Mill says, it is *not* always the fact 'that the capital invested in an employment can be withdrawn from it if sufficient time be allowed.' The outfit and buildings intended for one industry cannot be transferred to another. When a man retires from a business under circumstances such as I have supposed, he retires because he is unable to carry it on; but he cannot withdraw capital which is lost to *him* for ever. The cotton manufacturers would simply be ruined. They live, they move, and have their being on the breath of the demand for cotton goods—no other demand will suit their purpose; and the property which they possess in this shape would not render to themselves the slightest assistance even in growing a potato or a cabbage for their own sustenance. It is absurd to suppose that they can now produce the things they want for their own consumption. The economists constantly speak as if 'production' were a single substance, applicable to all kinds of consumption—as if a piece of it might be turned into a coat, another portion used to feed a baby, and, if not wanted for these purposes, could be made into a railway bridge. It seems to be for-

gotten that abstinence of A from the consumption of velvet will by no means supply B with bread; the velvet cannot be turned into bread or anything else. The bread can only be obtained, if required in greater quantity, by labour specially applied to land; and it does not at all follow that even by withdrawing the whole of the labour now applied to the production of what are called luxuries, and applying it to the cultivation of the soil, any considerably greater quantity of food can be produced, except in places where there are large tracts of unoccupied country; and in these the lack is not of food but of luxuries, for which the inhabitants of such places are ready to exchange their surplus food. It is for this reason that I conceive it to be altogether a fallacy to state, as Mr. Mill does, that a person who buys commodities and consumes them himself does no good to the labouring class. What he consumes can never be turned into capital or made use of in any other way if not so taken in exchange for consumption. A piece of velvet cannot itself afford any assistance in making more velvet; just as little can it do in producing cotton goods, or cloth, or butter, bread or cheese. But the purchaser of the velvet exchanges for it gold—a species of possession more readily exchangeable for any of these things, or for the labour necessary to obtain or produce them; and which yet, from its durability, possesses the advantage of never being itself consumed, retaining after each exchange an unimpaired power of purchase. Mr. Mill and others constantly speak

of the application of capital, as if in that application 'capital' were destroyed or 'consumed;' whereas, in fact, there is nothing so indestructible as capital. If the 'capitalist' pays Five Pounds for a piece of velvet, *he* has parted with the potentiality of purchasing other things to the extent of Five Pounds, and the velvet for which he has exchanged his money will wear out, but the Five Pounds remain, do not wear out, and, in other hands than his, will retain the power of supporting labour undiminished. The intervention of money is so important a factor in all these problems that it is impossible to grasp a true idea of them, if its effects are disregarded.

It is surprising how slow we are to perceive that the communities of the world, as social conditions are at present constituted, and probably will be to the end of time, are like a number of children playing at a game of 'Commerce.' Suppose some children playing for a pool, say of ten, or any other number of bonbons, contributed by them, each child having a certain number of counters for each bonbon as a 'medium of exchange.' Suppose that at the end of the first round or game these counters are not called in, or set aside as having fulfilled their purpose, but that the players are allowed to retain them in addition to the bonbons, and to use them in playing in exchange for bonbons at the same rates as before. Suppose, further, that the bonbons and counters being thus interchangeable, the bonbons are composed of a substance of perishable nature, which will not last beyond a few

hours; and also that, being good to eat and capable of being made into toys, a good many are so consumed by the young players; but that others can be and are by them made with some trouble, though scarcely much faster than the first bonbons decay, or are consumed. Suppose further, that the durable counters are allowed to be augmented in number by digging in the garden for some which are concealed there, and can be obtained with more or less difficulty. It is obvious, I think, that in this little game, before it has been long played, and so long as it continues, the desirable thing to do, is to get possession of as many of the counters as possible. They do not perish, and cannot be consumed, although they can at any time be exchanged for any bonbons at that time undecayed and unconsumed. And the little player who accumulates most counters will soon be the capitalist who possesses the potentiality of wealth—who can command when he chooses, the largest amount of the more perishable commodities then existing or thereafter to be produced. Of course I quite admit that if the game is stopped, and the counters called in, then he who has the most bonbons will be in truth the wealthiest; but so long as the game goes on the counters are the things to have. The actual commerce of the world is almost precisely analogous to this imaginary little game. So long as gold and silver are recognised as counters in the transactions of mankind, they will possess intrinsic worth, will be accumulated more easily and more certainly than

other property, and will constitute the greatest part of our wealth, as being the most durable form of it, until such time as the world—if ever—can stop its game of commerce and set aside the counters; and in proportion as freedom of trade and facility of intercourse render it easier to supply our wants from foreign countries, by buying with counters instead of producing articles of consumption ourselves, so will the practical value of the counters increase as compared with any other form of property.

The fact that the precious metals which we use as the basis of our currency and all our commercial transactions are more durable than the commodities for which they are exchanged, and are also more readily exchangeable, does introduce an element into all economical questions which cannot be disregarded if we seek for truth. It is a mere sophism for Mr. Mill, or any one else, to say that 'it is not with money that things are really purchased,' and that 'there cannot be intrinsically a more insignificant thing in the economy of society than money, except as a contrivance for saving time and labour.' The gold-digger knows better, and the common experience of mankind contradicts the delusion.

In his illustrations regarding the comparative good done to the labouring classes by buying velvet, or by paying for labour directly, Mr. Mill says that the funds of the manufacturer 'while locked up in velvet cannot be directly applied to the maintenance of labour.' But, in

fact, so far from any funds being 'locked up in the velvet,' they have been put into circulation by the manufacturer having exchanged them for the 'plant,' the machinery, and labour of various kinds which have produced the velvet he now wishes to sell. He has his buildings and other appliances—whatever they may be—and the product of the labour for which he has paid; but his original capital (the money which he has expended) has been set free, and has already flowed into innumerable labour-nourishing channels. The manufacturer has nothing 'locked up' which could previously, or can then be applied to maintenance of labour, except in so far as his buildings and machinery may be again exchanged for money. But it is clear that they would only be purchased for money on the supposition that they could be put to profitable use in the business for which they are intended, and which can only be rendered profitable by the employment of labour. If, on the other hand, the property purchased by the capital originally expended upon it should prove to be valueless from any reason, and therefore unsaleable, the person who had so exchanged his money for it may be ruined, or at all events has *pro tanto* lost the potentiality of procuring other service or commodities with the capital which he has transferred; yet the capital itself is neither destroyed nor 'locked up,' but possesses as much the power of supporting labour as it ever did from the first instant of its existence, as the representative of value of some kind.

Supposing that I am right in regarding it as a fallacy

to treat money exchanged for luxuries as so much capital *consumed*, it must be seen that what the spendthrift *expends* is not substracted from the potential energy of the country as generally asserted. What is consumed is a perishable commodity which in any case could not be preserved beyond a certain period, and cannot be added to the 'potential energy,' and which is valueless for exchange except for consumption. But the purchaser and consumer of this perishable commodity has exchanged for it a certain amount of coin which is practically indestructible so far as society is concerned, except by absolute loss (as if it fell into the sea) and if not lost will always retain the property of being again exchangeable for labour, or the products of labour. It is therefore exceedingly difficult to perceive why it should be considered that expenditure for what are termed articles of luxury, as wine and silk, is less beneficial to the labouring classes who produce them, and desire to sell the results of their industry, than expenditure directly in alms, or labour for such a purpose as the excavation of Mr. Mill's artificial lake; than which none can be conceived more entirely unproductive; nothing resulting from the operation which can even be consumed.

If under the generally accepted arrangements of civilised societies, capital is thus preserved from destruction, it follows that the fund of which it consists is merely subjected to continual re-distribution in the community to which it belongs as a whole, and is added to from time to

time by the products of the labour of the community, exchanged with other communities for metallic symbols of labour, or for other products, which may be transmuted into those tokens of value.

To say that it is more advantageous to a community to apply labour for one object rather than another, will be more or less true, according to circumstances; and it may be unwise on the part of the individual to exchange for perishable luxuries a potentiality which may be otherwise so used as to yield to himself a profit in what is tantamount to trade. But it is not obvious how this can affect the subsequent application of the 'potential energy' with which he parts, and which is not extinguished. If he does, as it is called, 'make money' by the use of his fund, it certainly is not by the multiplication of his pounds, as sheep multiply by breeding. He can only add to his store by substraction from some other source which must have been supplied by labour. And as in all other cases of supply and demand, uninfluenced by artificial restrictions, the application of labour will be directed by the natural demand for this or that particular product of industry. But all these products, whether food, clothing, or shelter, or only something called a luxury beyond these, are in themselves, as Mr. Mill has pointed out, eminently perishable. If not consumed they decay, and no accumulation of them as wealth is possible beyond an uncertain time and limited extent. To leave out of the question deliberately the fact that coin and bullion are the concrete representatives of the accumulated surplus products of labour over and above what the nation has itself consumed, is to omit any notice of the only solution of paradoxical problems.

It is not extraordinary that the proposition for which Mr. Mill contended should appear to so many a paradox, when his illustrations are untrue and misleading. He says that 'if, instead of laying out one hundred pounds in wine or silk, I expend it in wages or in alms, the demand for commodities is precisely equal in both cases; in the one it is a demand for one hundred pounds' worth of wine or silk; in the other for the same value of bread, beer, labourers' clothing, fuel, and indulgences; but the labourers of the community have in the latter case the value of one hundred pounds more of the produce of the community distributed among them. I have consumed that much less, and made over my consuming power to them. If it were not so, my having consumed less would not leave more to be consumed by others, which is a manifest contradiction.' The comparison is totally unfair, and the reasoning fallacious in the extreme. Mr. Mill is involved in the contradiction to which he refers, because it is certain that his not having consumed wine or silk cannot possibly have left more bread and beer, clothing and fuel, which are different substances, for the labouring classes. And his having consumed the wine or silk might possibly have enabled larger quantities to be provided of the necessaries named. But, besides this, the demand in the two cases which he compares is not the same for

commodities. If the one hundred pounds is laid out for wine or silk this is an exchange for wine or silk; if laid out in wages or alms, it is exchange for labour, or a gift without an equivalent. But there, in accuracy, the comparison should stop. In both cases, after this first exchange or gift, the one hundred pounds may be laid out in the bread or beer, clothing, fuel, or indulgences, just in the same manner, either for the labourers who made the silk or wine, or for those who dug the artificial lake, or for the ignoble recipients of alms. But the reasoning throughout this portion of Mr. Mill's chapter is based apparently upon the remarkable supposition that all produce is the same kind of thing, of which what is not consumed by one will be equally valuable to others, for whatever purpose needed. Whereas 'turning over part of my share of the present produce of the community to the labourers,' if that share is silk or velvet, is very much like giving them a stone when they ask for bread. The true necessaries of life, simply stated as food, clothing, and shelter, are just those requirements which cannot be altogether relinquished by any one in favour of others, though they may be restricted in quantity and quality.

Mr. Mill closes the chapter upon which I am commenting with some observations respecting many popular arguments and doctrines which he regarded as erroneous, more particularly with regard to the incidence of taxation. I do not propose now to analyse this section of the subject. But this is certain, that the effect of taxation can never

be accurately traced until its true character—what is really done by the imposition of a tax—is seen and acknowledged. We shall grope in the dark until it is seen and acknowledged that national taxation does not and cannot impoverish the nation as a whole—that it is absurd to talk of 'consumption' by a Government which, in the capacity of Government, can consume nothing—and that all that the most grinding taxation can do is to re-distribute the property of the society with more or less violence, or more or less prudence, or more or less inconvenience to the persons from whom the contributions are exacted in the first instance. But no savings of the nation are consumed any more than there is consumption of money among a party of men who sit down to a round game, some of whom win and some lose.

In the foregoing pages I have endeavoured to call attention to what I regard as fundamental errors in the propositions respecting capital, accepted as true by the school of economists of which Mr. Mill was the most distinguished member; and I have sought to explain in what I think these errors consist. Instead of endeavouring to trace out the physical effects of an endless chain of exchanges, of property for labour, and of property of various degrees of durability for other possessions, more or less perishable, in mercantile transactions, the economists base all their investigations upon a metaphysico-moral proposition that gold is not wealth. And they institute a kind of economical sacrament in which

gold—that is, money—is held to be merely the outward and visible sign of an invisible and mysterious gift or benefaction, which is imparted to the true believer by the transfer of the money, but is not perceptible, except in the beneficial effects of future labour. All this may be poetry, but it is not economical science.

SOME THOUGHTS ON VALUE.

Out of the erroneous doctrine that money is only a medium of exchange, and from disregard of the fact that, to be a true medium of exchange, it must itself possess intrinsic value, has arisen the obscurity which surrounds the teaching of so many writers on the subject of value. It is admitted that value is a relative term; and it is the fact that value has no more existence as an entity than height or breadth; it can only be measured or conceived of by comparison: yet there have been attempts to establish that there is such a thing as natural value pertaining to an article of exchange or production. Some writers, as Ricardo, have endeavoured to show that the value of a thing not only is measured by, but is constituted of, the quantity of labour necessary to produce or obtain it. Others, among whom was Malthus, have contended that value consists in, as well as is measured by, the quantity of labour that the thing can command as an article of exchange. The latter is much the nearer to the truth of these two theories, but neither is a satisfactory explanation. Both are among the generalisations

so common in political economy which involve the error in reasoning known to logicians as arguing '*a dicto secundum quid, ad dictum simpliciter*;' that is, taking for granted that what is true under particular circumstances will also be true on all occasions. While there are cases in which either explanation will seem to suit the circumstances, the exceptions are so numerous that it seems impossible to accept the generalisation as a law.

In truth the exchangeable value of any article will not depend upon the labour expended upon obtaining it, nor upon the labour which it will, as a general rule, command; but upon the cost of production—that is, upon the amount of property of exchangeable value which has been given for the labour and materials necessary to obtain or produce the article on an average. Unless this can be recovered with a fair amount of profit on the transaction, the article will cease to be sought for or produced, no matter whether the labour required be much or little. As an affair of convenience exchanges may be made without profits, but in commerce the expectation of profits is of the essence of the proceeding, and profits can only be accumulated in some third article, and eventually must be embodied in money. It is commonly forgotten that the value of any article in exchange must be largely determined by the degree of possibility of exchanging it, and of exchanging it with profit. Abundance of food in a country without local demand or easy transport—as has happened in the Western States of America and other

new countries with respect to grain—has rendered the greater part of the production almost valueless. If in these cases exchange had been possible, but only for articles likewise of perishable character, as milk and butter, although the convenience and comfort of the community would have been served by having abundance of milk and butter instead of a wasted surplus of wheat, yet still it would have been impossible, in the mercantile sense, to make any profit on the exchange. Comfort would be increased, but thrift or saving would be impracticable. Eventual profits and permanent savings can only be made in money—and the fact that money is an article of exchange and the article in which savings must be accumulated, affects the whole theory of value.

Almost all the writers on political economy seem to fail to grasp this idea, though it dimly presented itself to Malthus. He, however, stops short of apprehending the full force of the consequences from what he perceived. He says, in a note to the chapter on the progress of wealth in his 'Principles of Political Economy:'—'Theoretical writers in political economy, from the fear of appearing to attach too much importance to money, have perhaps been to apt to throw it out of their consideration in their reasoning. It is an abstract truth that we want commodities, not money. But, in reality, no commodity for which it is possible to sell our goods at once, can be an adequate substitute for a circulating medium, and enable us in the same manner to provide for children,

to purchase an estate, or to command labour and provisions a year or two hence. A circulating medium is absolutely necessary to any considerable saving; and even the manufacturer would get on but slowly if he were obliged to accumulate in kind all the wages of his workmen. We cannot, therefore, be surprised at his wanting money rather than other goods; and in civilised countries, we may be quite sure that if the farmer or manufacturer cannot sell his products so as to give him a profit estimated in money, his industry will immediately slacken. The circulating medium bears so important a part in the distribution of wealth, and the encouragement of industry, that it is hardly ever safe to set it aside in our reasonings; and all attempts at illustration, by supposing advances of a certain quantity of corn and clothing, instead of a certain quantity of money, which every year practically represents a variable quantity of corn, cannot fail to lead us wrong.'

Now it is for the reason that profits not only, as Malthus says, must be estimated in money, but do absolutely in the end consist of money and of nothing else, that the theory of value, so far as there can be any natural value at all, depends upon the cost of production in money, and not upon the amount of labour. It matters nothing to the manufacturer, or agriculturist, or proprietor of mines, whether he employs ten labourers or twenty, or whether he pays them ten shillings a week or twenty shillings; the question for his consideration is,

whether the value of the exchangeable property which he will acquire by their labour will be equal to that which he has to give in exchange for the labour and materials necessary to produce it, with a reasonable profit on the business, such as can be obtained from other employment of the exchangeable property which he possesses. And solution of this question does not depend upon the quantity of labour necessary, nor does it upon the amount of future labour in another place which the products may be able to purchase. It must be found, as I have said, in what the labour and materials cost in exchangeable property already saved, and depends entirely upon the relative value of the product to other products of the same kind, perhaps developed under quite dissimilar circumstances, and upon that value as measured against money—the article of exchange with which he has had to purchase the labour and materials necessary to the production.

In many instances, so far from the value of any article being determined by the cost of production, the cost of production, though no more labour is employed, is materially raised by the value of the article; this effect being often caused by the great demand for some particular product, and the consequently enhanced price of it. High profits stimulating cupidity cause high wages to be offered to obtain labour for its production until the cost is so much increased that it cannot be recovered. Augmentation in the wages of labour will also take place

in cases where there is no increase in the average value of the product of the labour, indeed rather the reverse, but where circumstances enable that product to be obtained with less labour than is necessary to procure the same value in exchange in other places. An instance may be found in South Australia. To the peculiarity of the climate, which enables wheat to be reaped and thrashed at the same time by Ridley's reaper * with very

* NOTE.—For the information of those who are not acquainted with Australia, or the peculiarities of the climate, I should explain why South Australia is not dependent to the same extent as other places upon hand labour for reaping her crops. The harvest is gathered at a time of year when no rain falls, and the air is so free from moisture that all substances are almost desiccated. The ears of wheat when ripe become so dry, that a very slight touch will separate the grain from the peduncle. To this circumstance is due the success of Ridley's reaper. By the action of this machine, the grain is literally combed off the stalks, and falls into a receptacle entirely separated and ready for the sack, while the stalks are left standing. But so entirely is the action of the reaper dependent upon the dryness of the wheat, that it will not work satisfactorily early in the morning when the preceding night has been at all damp; it is necessary then to wait until the sun has been up some time, and the day has been 'aired.' And elsewhere in moist climates, the reaper does not succeed. Instead of the grain being readily separated from the stalk, the plant itself is entangled in the teeth of the machine, and the apparatus becomes hopelessly clogged.

The advantage derived in South Australia from the use of this reaper may, however, be understood when I mention that with it the labour of one man and three horses will reap and thrash from seven to ten acres in one day, yielding an ordinary crop of ten bushels of wheat per acre, at a charge of 7*s*. per acre, to which is to be added 1*s*. for winnowing and bagging ready for market. For a heavier crop four horses would be required, and the expense is computed to be 1*s*. per acre more. In the only part of the colony where hand-reaping is carried on the charge is 16*s*. per acre, and of thrashing, winnowing, and bagging 5*s*. 3*d*. more; making 21*s*. 3*d*. per acre for hand-reaping as against 8*s*. for machine work. As this colony had 780,000 acres of wheat to reap last harvest, it is easy to compute the saving to the wheat-grower of South Australia.

little comparative labour, is owing to the fact that it is remunerative to grow wheat on lands which are far from fertile, and where it would be impossible to do so at a profit if the same labour were required for reaping alone, which is necessary in other places. This effect is also conspicuously obvious in the gold mining countries. In these places evidence is afforded that the doctrine of which Ricardo was the chief expositor, 'That gold and silver, like all other commodities, are valuable only in proportion to the quantity of labour necessary to produce them and bring them to market,' is a fallacious generalisation, specially untrue as regards the article gold. The extraordinary prosperity and rapid growth of California and Victoria is entirely inconsistent with the accuracy of such a view of the subject. They have prospered because by a certain amount of labour it has been possible to produce a greater amount of exchangeable value on an average in a certain time than would have been obtained in any other known occupation.

Ricardo's generalisation could only be true on the supposition that the average remuneration of labour in one kind of occupation is the same as in any other occupation, which it certainly is not. But apart from this, the uncertainty of results in gold mining, so nearly akin to gambling, deprives the generalisation of any accuracy in this case. If it were true, it ought to be found, for instance, that the exchangeable value of the production of a thousand men engaged for a thousand days in gold-

mining, exactly equals the value of the produce of the labour of a thousand men engaged for a thousand days in any other industry. We know almost certainly that this is not so. And it would not affect the question of accuracy in the generalisation if it could even be shown that the result of the labour expended is really much less. This would not deter men from following an occupation which offers to individuals the chance of sudden wealth, or a large remuneration for their exertions, any more than the certainty that the bank at rouge-et-noir, or roulette, always wins in the long run, will deter men from gambling. And those who do find large nuggets will not get more in exchange for an ounce of gold, than an ounce will already purchase, because many other men have toiled unprofitably; just as the man who wins at roulette will not get more for his Napoleons because other men have lost. The value of all articles of exchangeable character, in fact, is determined by and relative to that of other articles of the same kind existing at the same time. An ounce of gold must always be worth an ounce of gold, but what it will be worth in exchange for other articles will depend not upon the amount of labour bestowed upon getting it, and not even upon the cost of production—it may have been produced at a loss to the individual; but it is an imperishable article added to an accumulation, and its value relatively to other things will depend upon the quantity then in existence. It is remarkable to me that writers on economical subjects should so generally

speak of labour as if it were constant in quantity or value, and that they uniformly disregard the fact that the value of labour is determined by the relative value of what can be procured by it. Otherwise there could scarcely be such a thing as a demand for labour, which can only arise from the fact that labour may be applied more profitably in one occupation than another, and itself therefore varies in value. Wages could only mount up to a pound per day, as was the case for day-labourers at Cariboo gold diggings, in British Columbia, when I was there, because the employer expected to get more than a pound back again, on an average, from the labour which he paid for. But surely, in this case it would be absurd to say that the men employed worked ten times as hard, or ten times as long, as men employed elsewhere at two shillings per day. And if it can be a profitable thing to work a gold mine on an average, with wages at twenty shillings per day, it seems to follow that so far from 'fifteen times the quantity of labour being necessary to produce a given quantity of gold,' in comparison with silver, as said by Ricardo, it is obvious that a much greater relative exchangeable value — perhaps fifteen times—is or may be produced in gold mining, by the same quantity of labour than is produced by most other occupations.

And the existence—the rapid rise and flourishing condition—of such places as California and Victoria is a decisive reply and refutation to Ricardo's theory. There

is no reason, according to this, why gold countries should have been more prosperous; and their being so, as all must admit they are, is only explicable on the supposition that a given amount of labour has in these produced a greater amount of exchangeable value than in other places, and that they have consequently become more rapidly rich than other communities with the same population and equal natural advantages, excepting the gold.

Ricardo's doctrine has, however, been admitted by Mill and others to be erroneous, and it would scarcely be necessary to dwell much upon this, if it had not become mixed up with theories respecting a supposed natural value, and speculations upon the difference between value and price.

With regard to what has been termed natural value, we may admit that any article *ought* always to be worth what it has cost to produce it on an average; but beyond this it is scarcely possible to go. And we know that this standard is not in practice applicable in all cases. The value in exchange will be determined by what other articles of the same kind may be obtained for, without any reference to cost of production. There are occupations which are supposed with good reason to be prosecuted on the whole at a loss, though their speculative character, affording the chances of large gains, induces persons to continue to engage in them. Mr. Mill mentions the lumbering trade of Canada as one of these;

and gold mining in many instances is another. On the other hand there are certain industries in which the profits are uniformly larger than in others; and causes quite apart from the quantity of labour expended, or the cost of production in exchangeable value, regulate the value of the article when produced. Instances may be found in the fisheries of North America, in wool growing in the Australian colonies, and in the diamond fields of South Africa.

In the fisheries, the labour expended and cost incurred will probably not differ much whether the season be successful or the reverse, but the value of an abundant catch in one year will not be increased per cwt. by the fact of previous failures; on the contrary, the abundance certainly will have a tendency to reduce the rate for an article which must be more or less immediately consumed. Unquestionably large fortunes have been made by merchants from the fisheries, even while the labouring men remain, as a rule, in debt. No doubt the fisheries are upon the whole profitable, but it would be wellnigh impossible to state even approximately the 'natural value' of a quintal of codfish on the banks of Newfoundland. Let us take the case of wool. The enormous wealth known to be accumulated by the Australian 'squatters' affords us a fact quite inconsistent with the idea of a natural value for wool, measured by labour. The value of the annual production from their flocks of sheep bears no relation to the little labour necessary to tend those

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With regard to what has been termed natural value, we may admit that any article *ought* always to be worth what it has cost to produce it on an average; but beyond this it is scarcely possible to go. And we know that this standard is not in practice applicable in all cases. The value in exchange will be determined by what other articles of the same kind may be obtained for, without any reference to cost of production. There are occupations which are supposed with good reason to be prosecuted on the whole at a loss, though their speculative character, affording the chances of large gains, induces persons to continue to engage in them. Mr. Mill mentions the lumbering trade of Canada as one of these; and gold mining in many instances is another. On the other hand there are certain industries in which the profits are uniformly larger than in others; and causes quite apart from the quantity of labour expended, or the cost of production in exchangeable value, regulate the value of the article when produced. Instances may be found in the fisheries of North America, in wool growing in the Australian colonies, and in the diamond fields of South Africa.

In the fisheries, the labour expended and cost incurred will probably not differ much whether the season be successful or the reverse, but the value of an abundant catch in one year will not be increased per cwt. by the fact of previous failures; on the contrary, the abundance certainly will have a tendency to reduce the rate for an article which must be more or less immediately consumed. Unquestionably large fortunes have been made by merchants from the fisheries, even while the labouring men remain, as a rule, in debt. No doubt the fisheries are upon the whole profitable, but it would be wellnigh impossible to state even approximately the 'natural value' of a quintal of codfish on the banks of Newfoundland. Let us take the case of wool. The enormous wealth known to be accumulated by the Australian 'squatters' affords us a fact quite inconsistent with the idea of a natural value for wool, measured by labour. The value of the annual production from their flocks of sheep bears no relation to the little labour necessary to tend those

flocks, or the cost of production where there is little or no rent paid for boundless extents of land. Although produced for infinitely less than the wool of Europe, the price for Australian wool in England is regulated by the quantity to be obtained and the demand of the manufacturers for it at the time. Who shall say what is the natural value per pound of Australian wool, and the difference between that and the value of South African fleeces?

And when we turn to the diamond fields, I think it would perplex the most acute and distinguished economist to give a rule by which we may ascertain the natural value of the diamonds of which the discovery has done so much for South Africa in the development of wealth. In this case again neither the labour nor the cost of production bears any ascertainable proportion to the exchangeable value which has been drawn from the bowels of the Colesberg *kopje*. By far the greater part of the hardest labour was performed by naked Kafirs, paid at absurdly low rates compared to the wages which gold miners would make for themselves out of any ordinarily prosperous gold mine. To pay these, and feed and clothe themselves was all the expense incurred by the proprietors of the claims from which has come the wealth which has more than doubled the public revenue of the Cape colony. It is beyond calculation to say what may be the natural price of a diamond; but it is indisputable that by no process of

ordinary industry could the same amount of exchangeable wealth have been introduced into South Africa in the same time as has been obtained from the diamond fields. Why should the character and effect of wealth be granted to diamonds and denied to gold?

And yet economists persistently refuse to recognise the existence and effect of money as an article of exchange. It is from this error that the obscurity arises in the attempted distinction between value and price. There is no true distinction. The price of anything is only its value expressed in relation to some one article of exchange—the most generally used for this purpose being that most generally used for exchanges—that is, used for money—and in which, being the most durable, all eventual profits and savings must be accumulated. But as an instance of the confusion prevailing even in a mind so clear as Mr. Mill's, let us take the following passage from his chapter on the ultimate analysis of cost of production (Vol. I., p. 555). He says:—'A rise or fall of general wages is a fact which affects all commodities in the same manner, and therefore affords no reason why they should exchange for each other in one rather than in another proportion. To suppose that high wages make high values is to suppose that there can be such a thing as general high values. But this is a contradiction in terms; the high value of some things is synonymous with the low value of others. The mistake arises from not attending to values, but only to prices. Though there is

no such thing as a general rise of values, there is such a thing as a general rise of prices. As soon as we form distinctly the idea of values we see that high or low wages can have nothing to do with them; but that high wages make high prices is a popular and widely spread opinion. The whole amount of error involved in this proposition can only be seen thoroughly when we come to the theory of money. At present we need only say that if it be true there can be no such thing as a real rise of wages; for if wages could not rise without a proportionate rise of everything, they could not, for any substantial purpose, rise at all. This surely is a sufficient *reductio ad absurdum*, and shows the amazing folly of the propositions which may and do become and long remain accredited doctrines of popular political economy.'

The whole of this argument is based upon the assumption that money is only a medium, like a bank-note, not exchangeable property; and that wages are paid, not with money, but in some mysterious way with 'part of the produce of the country.' It falls to pieces when we see that money is an article of exchange; and it forms a striking illustration of Mr. Mill's observation in the last sentence quoted. He does not admit that money is anything, and treats it as an error to suppose that high wages make high prices. He fails to remember that if there is such a thing as a general rise of prices—which he admits —this must mean a general rise of values in everything else as compared to money; and that this involves the

separate existence of money as an article of exchangeable value; for otherwise there would be no reason for a general rise of prices—price, as I have pointed out, being only the expression of value measured against some article of exchange. Were true money really only a medium, as a bank-note is, there could be no general rise in values as compared with money, which would then possess no intrinsic value. But being a distinct article of exchange, we may easily see that high wages will certainly make high prices, for this must follow when a larger amount of exchangeable value is given for the labour and materials necessary to production; that amount must be recovered with a profit, or the industry will not be continued, unless in the exceptional cases to which I have already adverted. Mr. Mill says that, if wages could not rise without a proportionate rise of everything, they could not for any substantial purpose rise at all. Unfortunately this is not a *reductio ad absurdum*, but in many cases a lamentable truth. Wages may rise, while everything but money has also risen. The rise in value of other things does mean depression in the purchasing power of money, and nominally higher wages have in many cases not afforded the labouring classes any advantages. The increased cost in the necessaries of life having more than counterbalanced this advance in wages paid in money, the labourers do not get the produce of more labour, as it is assumed by Mr. Mill that they must with higher wages. The law of distribution, from which he says there is no escape, does

rest upon a law of arithmetic. But in working out the sum he omitted part of the calculation, which requires to be taken into account before we can obtain a true result.

It is curious to notice the ramifications of the error which we are considering. In an article in the *Fortnightly Review*, of June, 1873, by Mr. Cliffe Leslie, on the gold mines and prices in England, he says:—'It should, however, always be borne in mind, in speaking of demand and supply, that it is only in the shape of money demand that the new gold can ever come into circulation; and that if there be independent conditions of supply and demand sufficient to cause a rise of prices, a great addition to the quantity of money in circulation must magnify the rise in proportion. But some reasoners must go beyond this. They urge that since the demand which raises prices can be no other than a money demand, to trace a rise of prices to an increase of demand is simply to trace it to the new gold. A rise of some commodities, it has been added, would, but for the new gold mines, have been compensated by the fall of others, since the total amount of money expended would otherwise not have increased.' Now, this is true, because, under these circumstances, variation in the comparative value of articles, other than gold, must have had its origin in a cause not common to them all. Gold would have remained where it was in relation to some things; some would have become cheaper or dearer, in relation to gold, and to others. But Mr. Leslie proceeds to say, that 'It is not so, however. The total expenditure

of money will naturally advance with the increase of population, though no new sources of money be discovered, and prices may rise without any discovery of more fertile mines.' There can scarcely be a greater error than this. Total expenditure, that is, total consumption of consumable things, would certainly be increased; the total savings of the nation it would be impossible to augment. If not from fresh supplies from old or new mines, the nation cannot get any more money except from other nations; by exporting more value in goods than they import and consume, and by receiving the difference of value in their favour in the shape of the precious metals. Their only alternative would be an inconvertible paper currency—a currency, in this case, not even of debt or of credit, for there would be no basis of public national obligation upon which to issue promises to pay, as was done in the United States.

I am disposed to think that over-generalisation is a radical defect in most of the philosophy of the last half-century. There is a tendency to the logical error before-mentioned of arguing that what is true in one set of circumstances will always be true on all occasions. In political economy, for instance, it is forgotten that the principles which regulate production have no more necessary connection with those which regulate exchange than the art of making good gunpowder has with the art of using it most effectively. The science of exchanges is really as distinct from production as gunnery is from

chemistry. *Profits* can only be made upon exchanges; and you can only exchange in commerce things already in existence. If a man gives two shillings for a pound of glass beads which he exchanges on the coast of Africa for a tusk of ivory which he sells elsewhere for five pounds, he and the nation to which he belongs have been largely gainers by these transactions, but nothing has been added to the sum of property already in existence. There has been no production. The gain of the man who exchanges the beads for the ivory has no relation at all to the cost of making the beads; and his profits only consist in his having on the exchanges obtained more of the third article, money, than he gave for the beads.

And the class of facts belonging to one kind of production is often totally different from that belonging to another; so different as to render any generalisation untrue and misleading. Production from land by agriculture is one thing; that by pastoral occupations another; and that by manufacture dissimilar from either. So that when we talk of production of wealth, it is necessary to distinguish what kind of wealth we mean. For example, I have heard it objected by a friend to part of my observations in a former essay, that capital may be consumed in the using, and a case was brought forward of a farmer who uses a thousand bushels of wheat as seed-corn which is destroyed, but in fact was part of his capital. Now this is quite true so far as the farmer was concerned; but it will not support a generalisation, for it is only true in

respect of agriculture and the fruits of the earth, for the multiplication of which we are dependent upon laws of Nature beyond the control of man. Instead of wheat, let us take wool. It will not be contended that by destroying wool or sheep the Australian squatter can produce more wool or more sheep. And if we follow the wool on to the manufacturer who hopes to make a profit on it, by making it into cloth, of course the cloth after it is made will not multiply by breeding, nor can any of it be used, like wheat, to grow more of its own kind. Now, in this last case of manufactures, there is not any new natural production, as in the case of the wool and the wheat; there is only an expenditure of human labour in turning the wool into something which will sell for more money than the wool cost—out of which profit is to be made—which profit is in fact embodied in gold; and as the transactions of mankind are conducted, can scarcely be embodied in anything but that article of value selected for use as money.

As a matter of generalisation, too, I think it very misleading as well as inaccurate, to treat land as part of the capital of a nation, although the special right to use a particular portion of it may be a possession of an individual, valuable to him. Land has always existed and will always remain, although its productiveness may be diminished by exhaustion of its fertilising qualities. Capital, if defined to consist of the accumulated products of former labour, cannot include land, which is one of the gifts of

Nature, like air, water, or sunlight, which fertilise the land.

But to revert to the illustration mentioned above—of the consumption of seed used in agriculture—it cannot be carried very far in support of the doctrine of the consumption of capital. It is said that if the seed, costing £100, has been sown, and is consumed in the soil by decay, and there is a failure of the crop, the loss is complete; and it is urged that to treat this capital as not consumed, because the £100 paid for the seed still exists, is a play upon words. I do not so regard it, because the seed would have been destroyed in any case, whether by decay or consumption for food, if it had not been planted. The original capital or past savings remain in the shape of the gold, although no longer in the hands of the farmer. He had given that capital or past savings in exchange for a prospective advantage in a future crop of corn which he fails to obtain. But so far as the community is concerned, the affair is not one of loss of former savings, but of failure of increase; which may both entail diminished consumption and lessen addition to property, but will not substract from capital.

The existence of some independent, substantive—not merely representative—article of value, as money, is indeed necessary to the existence of value in other articles in many cases. If not for the possibility of exchanging things of perishable nature for something else which will keep and can be accumulated, the aggregation of wealth

would be impracticable. And hence we should perceive the mistake of regarding money merely as a medium of exchange. It is singular that the error is not more distinctly seen of supposing that the quantity of gold necessary for use as money is regulated only by that required for making exchanges, seeing that all savings of movable property must be in the long run embodied in gold, and that without true money they cannot be preserved. The time has not come in any place with which I am acquainted when any one will declare that he has no use for more money. That period can only arrive when every one has more than he wants of every other article that can be purchased with gold. Then the gold mines will cease to be worked. The present position of affairs in the United States affords, I think, a very remarkable illustration of this error. That nation, like the improvident man who spends all his money on wines, equipages, and other perishable articles, has within the last few years exchanged all or almost all its capital in gold for more or less perishable commodities, imported from Europe, and now has little or no capital left applicable to the employment of labour, and in consequence is compelled to resort to the continued use of circulating credit, in promissory notes, which is certainly not capital, but the anticipation of future products not yet realised.

At the very first attempt to pay off these promissory notes by contracting the currency, it is made plain that the nation cannot do that, or do without the circulating

credit, until it is replaced by gold. Imagine all the paper money—which is only circulating debt or circulating credit, according to the side from which you view it—withdrawn from circulation before the substitution of coin, and let any one ask himself whether the nation would not have lost so much exchangeable property; how business operations are to be carried on; and how permanent savings are to be effected. Either capital or circulating credit is essential for this purpose in the shape of a so-called circulating medium. The States have spent their capital, and are driven back upon credit, which represents future production—not accumulated savings. Capital is necessary for a 'medium of exchange,' and it is only, I again urge, in the form of gold, or whatever is used as money, that saving of the value of moveable or perishable property can be accumulated. Without it we may live profusely, consume prodigally all the comforts and luxuries of life; but we cannot preserve the value of them by any abstinence, either individually among ourselves, or collectively as a nation in our commercial intercourse with other nations. It has been shown by official returns that the United States have parted with more than $500,000,000 of gold in the past ten years. It is estimated that there is not more than $150,000,000 in all hands in the country; and it is computed, even by those who only think of money as a medium of exchange, not as the embodiment of savings, that, at least, $500,000,000 of circulating capital, or national

savings, is needed for national purposes. It will be impossible for the nation, however wealthy in other respects, to withdraw their paper currency from circulation; in other words, they cannot pay off their debt to posterity until $350,000,000 in the precious metals have again been obtained to replace the paper. The gold is not in the country, although there is abundance of other property. How is it to be obtained? The United States have an alternative not possessed by other nations placed in like circumstances, because they can accumulate the produce of the gold and silver mines of California, Nevada, and other western states. Apart from this there is no other mode than that of falling back upon the much-despised commercial system, and the arrangement of the balance of trade so that it shall give them gold in exchange for more perishable articles. If their imports are kept down, and their exports are larger in value, they will gradually receive the difference in gold. But if they continue to import, that is, consume foreign goods to the full extent of their exported production, they can never save and never pay off their debt except by the aid of future western production of gold. There are indications in the falling off of the revenue from imports in the United States that the remedy is at work: but I doubt whether the true meaning of the fact is appreciated. And undoubtedly diminution of revenue is viewed with apprehension because it at first diminishes their ability to pay off the public liability to individuals without other taxa-

tion. But when gold begins to flow in, the true plan would be as soon as possible to insist upon payment of all taxes in gold, and then to apply such portion of the taxes as can be so appropriated to retirement of the paper by instalments, replacing them by gold. This would probably have the effect of rapidly bringing up the remainder of the paper to par value. But it is hopeless to attempt to withdraw the paper unless it can be replaced by gold, and it is for this reason that so much inconvenience has been felt from the recent contraction of the currency. It was tantamount to the withdrawal bodily of so much circulating credit, or what represents capital, from the resources of the nation. It does not matter how rich they may be in houses and lands, and flocks and herds, railways and factories: these will not stand in the place or answer the purpose of circulating capital or money; and it is simply a matter of physical impossibility for their debt to be paid off until the Government has gold to do it with. They may go on indefinitely among themselves with the paper money, but they cannot while doing so import goods to a greater value, computed in money, than can be paid for by the money to be obtained for the exports of annual produce; and if this is done to the full extent of those exports, they never can pay off their debt except from the produce of the western mines, for they can make no other permanent savings to do it with. Any surplus of agricultural, pastoral, or manufactured produce retained at home, beyond what is needed imperatively for home consumption, would only decay if not consumed: it would possess scarcely any value. The best that could be done with it would be to use it in luxurious living, for no abstinence from consumption will enable the people to save it, or the value of it, unless it can be exchanged with other communities for articles of value which will keep—in short, for money.

If we turn our attention now to the consideration of the labour which a commodity *will command* as a measure of value in exchange, we shall find that this also fails to afford us any uniform standard.

It seems always to be disregarded, that the value of any article in exchange is most generally determined—not by our being able to exchange it for what we want, but by the possibility of its being exchanged for something which we do not require. And here again the existence of money as an independent substantive article of value, which being universally acceptable, and very durable, enables value to be preserved which would otherwise unavoidably be wasted, affects the whole character of exchanges. If, for instance, we imagine a community—and there have been many such, especially in former years, before the world enjoyed the present facilities for transport and communication—where there is abundance of wheat or other food, and a bare sufficiency of homespun cloth, and that no great facilities for intercourse with other places exist, then it must be obvious that a small quantity of homespun would exchange for a large measure of food,

say eight bushels for one yard, for illustration. Whatever the measure, the value could not be said to be unequal between the wheat and the cloth, and both may be supposed to purchase the same quantity of labour in that place. But if wheat is in demand in another place to which access is easy, and can there be sold at the rate of eight bushels for a yard of silk, which, when brought back to the first place can be exchanged for four yards of the homespun, then it becomes obvious that two bushels of wheat are equal to a yard of homespun, and more will not be given for that when interchange for silk is so much more advantageous. The quantity of labour which the silk might be able to command in the country of its production, does not affect the value in the other place, nor will the fact that eight bushels of wheat can only command the same labour as a yard of homespun in the place where they are produced, prevent a greater value attaching to the wheat in a place where that is demanded, and the homespun is not required. If we see that it may be so much more advantageous to be able to exchange the wheat for the silk immediately, rather than immediately for the homespun, and we proceed a step further, we shall perceive that it must be still more advantageous, and will tend to raise the value of the wheat, if we can exchange not merely for silk, for which the demand may be local, temporary, and uncertain, and which is itself perishable, but for gold, for which there is a desire universal, continuous, and certain, and which in no respect deteriorates by

keeping. This possibility of effecting exchanges for money —that alcahest or universal menstruum, itself an article of intrinsic exchangeable value, which will produce anything which we want now or at a future time—instead of for other things, which if taken must be consumed more or less immediately, governs the whole question ; and, as Malthus remarked, all attempts at illustration or reasoning, by supposing advances of a certain quantity of corn and clothing, instead of money, which practically every year represents a variable quantity of corn, cannot fail to lead us wrong. I have, however, used this illustration of the effect upon the value of wheat, because it may be found in action in the Colony of South Australia. The value of wheat here is manifestly determined by what it is worth in other places. Among a community where it is produced in abundance much greater than required for local consumption, its value in exchange must have fallen very low were it not for the possibility of disposing of it in places where the supply is not so large. But now it will not be exchanged in South Australia for less than may be got for it in the markets to which it may be sent. If, however, we now consider the amount of money for which it can be exchanged in England, we shall find that although this is greater than it would have been in South Australia, without access to foreign markets, and although this fact has raised the value in Australia, yet even then the same money value will not represent equal command over labour in the two places. In England a

certain sum of money wages will command a greater amount of personal labour than in South Australia. The wheat which has been exchanged for it may be held to do the same thing, even though the value of that in the place of production has been enhanced by the possibility of transferring it to a better market. It appears, then, from this and other facts of a like character, that a commodity will not uniformly command an equal amount of labour in different places; and it is equally certain that it will not uniformly command the same amount at different times in the same place. Labour may truly be regarded as a commodity, like articles of exchange, which will vary in value relatively to them in different places and at different times, and cannot, therefore, afford us a standard measure of natural or intrinsic value.

Malthus, in his dissertation upon this subject, refers to the fact that the money price of labour is extremely low in China, and regards it as preposterous to measure the value of Chinese labour in China by money instead of measuring the money by the labour. Yet he admits that a Chinese commodity carried to Hamburg would be sold at the China money price, with the addition of the expenses and profits of the voyage; and an English merchant purchasing Hamburg and Chinese goods would unquestionably estimate their relative values by their cost in money without the least reference to the very different quantities of labour which had been employed in obtaining them. Surely in this case to endeavour to distinguish between

measuring the labour by the money, and the money by the labour, is seeking to establish a distinction without a difference. And after all we come back to the simple fact that the value of any article will depend not upon the amount of labour employed in obtaining it, nor upon the amount which it will command, but upon that of property of exchangeable value given for it.

Mr. Mill, indeed, has attempted to offer an apology for the speculations which he admits have incurred the reproach of logomachy brought against writers on economical subjects. He says that 'The idea of a measure of value must not be confounded with the idea of the regulator or determining principle of value. When it is said by Ricardo and others that the value of a thing is regulated by quantity of labour, they do not mean the quantity of labour for which the thing will exchange, but the quantity required for producing it. This, they affirm, determines its value; causes it to be of the value it is, and no other. But when Malthus and Adam Smith say that labour is a measure of value, they do not mean the labour by which the thing was or can be made, but the quantity of labour which it will exchange for, or purchase, the value of the thing estimated in labour. And they do not mean that this regulates the general exchange value of the thing, or has any effect in determining what that value shall be; but only ascertains what it is, and whether and how much it varies from time to time, and from place to place. To confound these two ideas would

be much the same thing as to overlook the distinction between the thermometer and the fire.'

This explanation explains nothing. If labour, as a measure of value, only ascertains what value *is*, and whether and how much it varies, not what it ought to be and must be, then it does not answer the purpose better than any commodity which might be selected, and scarcely so well as gold. And the comparison to the thermometer and the fire, though apparently apt, is in truth inappropriate and misleading; because the thermometer will always, at all times and in all places, show the same heat of the fire if the heat *is* the same. The relation of the thermometer to the fire is constant; the action of a certain degree of heat will always mark a certain temperature on the scale of the thermometer; the mercury will fall with the heat. It is such a measure of value which the economists have sought for and not found; because a certain amount of labour will not at all times and places be an expression of a certain amount of value in any single article. The two things—labour and value—will vary towards each other as well as in relation to other things. The value x will not represent the same amount of labour in Australia, in England, and in India; it will not indicate the same amount of heat converted into muscular motion, as 0° on a centigrade thermometer will indicate in each of these places the exact temperature of the point of congelation in water. The difficulty in the case of values can perhaps best be illustrated by the measurement of

dimensions, which must be artificial. We can measure values against an adopted standard like gold, as we can measure height or length or bulk by an adopted standard like the metre; but there is no more an inherent quality called value than there is an inherent size in any object.

It would have been advantageous to the development of economical science if this had been clearly recognised by the writers who for many years have chiefly influenced the public mind upon these subjects. The singular attempt to distinguish between price and value has, perhaps, helped to keep alive a fanciful belief in a natural value as pertaining to commodities.

But the subject affords a curious instance that even in the nineteenth century men of remarkable intellectual power and great attainments have occupied their time and their minds in speculations as unreal and practically worthless as the inquiries concerning the colour of the Virgin Mary's hair or the personal habits of angels, which engaged the attention of Duns Scotus and Thomas Aquinas.

ON INTERNATIONAL TRADE.

If we pursue our investigations further into other branches of economical science, such as international trade, we shall find that the error which we are considering—disregard of the fact that money is a substantive article of exchange—has led to very singular misapprehension of other facts.

A remarkable instance may be found at the beginning of the seventh chapter of Mr. Fawcett's Manual. After referring to the advantages which a country derives from obtaining through foreign commerce various commodities which she cannot produce herself, or cannot produce so cheaply, on account of difference of climate and other circumstances—which advantages no one will deny—he proceeds to illustrate other benefits by examples which will not support his conclusions. He first supposes the case that in France a ton of iron can only be produced at the same expense of labour and capital as that required for twenty sacks of wheat; but that in England a ton of iron may be produced with the same amount as is necessary for production of only ten sacks of wheat. He argues that in this case it is greatly for the advantage of both

countries for England to exchange iron with France for wheat; and, because, if the French manufacture iron for themselves, it would cost them as much as twenty sacks of wheat at home, and if the English sold their own iron in their own country they would have to take only ten sacks of wheat, he represents that by France giving fifteen sacks of wheat to England for one ton of iron—instead of France producing iron and England wheat—they each obtain a profit upon the transaction equal to five sacks of wheat.

This argument and conclusion appear to be very fallacious. It is not shown that there is any greater production caused by the interchange. The articles to be exchanged are not augmented in quantity; there is no increase of value. The question is, who is to derive the profit, and in what the profit is to consist? If the manufacturer of iron in France gets twenty sacks of wheat for his ton of iron, wheat remaining at the same value, it is clearly better for him to sell in France than in England. If the wheat-grower in England gets a ton of iron for ten sacks of wheat, undoubtedly this exchange is better for him than the exchange of ten sacks of wheat in France for only half a ton. And in each case, if this advantage is lost, it is lost to the nation to which respectively the iron-manufacturer and the wheat-grower belong. It is simply impossible that both parties to a transaction of this kind can be gainers in value unless that value is estimated and embodied in some third article itself possessing intrinsic

value. If iron is exchanged directly for wheat in England, and the same is done in France, each nation keeps what it has. If in exchanging these articles internationally either party gains, it must be in quantity. The whole exchangeable property divisible is wheat + iron; and, unless both parties are just where they were, at the close of the transaction one of the two must have more of wheat + iron than it had before, and the other less.

This is another of the many instances showing, as Malthus says, that all attempts at illustrations by supposing advances of certain quantity of corn or other commodities instead of a certain quantity of money, which practically every year represents a variable quantity of corn, cannot fail to lead us wrong.

How it does so, is conspicuously shown in a further argument of Professor Fawcett, where he states that in order that two countries should enjoy the striking advantages which he pointed out in the passage to which I have referred, it is not necessary that of the two commodities exchanged, the first should be dearer in the one country than the other, and that the second commodity should be cheaper. All that is necessary, he says, is that in the two countries there should be a difference in the relative value of the commodities which are exchanged. He then proceeds to suppose, for an example, that the cost price of a ton of iron in France is thirty pounds, and the price of a sack of wheat thirty shillings, and that a ton of iron would, according to this supposition, exchange in France for

twenty sacks of wheat; but in England a ton of iron is supposed to exchange for only ten sacks. Then let it be considered, he proceeds, that a ton of iron in England is worth ten pounds, and a sack of wheat is worth one pound. Wheat and iron are, therefore, both cheaper in England than in France, but iron is three times as dear in France as in England, and wheat is only one and a half times as dear. There is therefore a difference in the *relative* value of wheat and iron in the two countries. And hence, he says, a foreign trade in these two commodities can be carried on with great advantage to the two countries concerned.

In this Mr. Fawcett is very manifestly mistaken. Even granting that what he supposes might be the case if any countries carried on trade by exchanging one article directly for another, the transaction is modified to a very important extent when exchanges are made of iron for gold, and gold for wheat, not wheat for iron. According to Mr. Fawcett's own proposition, the English iron merchant would get in France thirty pounds per ton for iron—that being the cost price, below which iron could not there be produced. It would be contrary to all modern mercantile principle, which requires that he should buy in the cheapest market, to suppose that having been successful in selling his iron for a price so much better than he could get for it in England, he would immediately, out of pure philanthropy and good-fellowship, proceed to give the French fifty per cent. more for wheat than he could get it for in England. Why should he give twenty-two pounds

ten shillings in France, besides the expense of transport, for fifteen sacks of wheat, when he could purchase them in England for fifteen pounds, out of the thirty pounds which he had obtained in France for his ton of iron, and leave himself double the profit on the transaction by so doing? In this supposed case of Mr. Fawcett's, it may suit the English iron merchant to sell, and the consumer in France to buy from him, but most certainly no exchange of English iron for French wheat will take place so long as wheat can be purchased in England for less gold than must be given in France.

This fallacy, that exchanging two articles directly for one another will produce the same result that is obtained by their being intermediately changed for another third article of intrinsic value, used as money, runs through all Mr. Mill's elaborate arguments in his chapter on international trade. He says—'England might import corn from Poland, and pay for it in cloth, even though England had a decided advantage in the production of both one and the other. England might send cottons to Portugal in exchange for wine, although Portugal might be able to produce cottons with a less amount of labour and capital than England could.' It is most surprising that Mr. Mill should have regarded this as even conceivable. Australia, from natural advantages, produces both wheat and wool at much lower cost than they can be produced in England. What would any Australian merchant think, if told that it would be for his advantage, or that of Australia, to send wool to England, and there with it purchase wheat to bring back to Australia at a higher rate than he can get it for in Australia. His doing so would be regarded as not showing more knowledge or acuteness than was exhibited by Moses Primrose in the 'Vicar of Wakefield,' when he sold the Vicar's horse at the fair for a gross of green spectacles.

A little further on, in the same chapter, Mr. Mill states, that 'It may be to our advantage to procure iron from Sweden, in exchange for cottons, even though the mines of England as well as her manufactories should be more productive than those of Sweden, for if we have an advantage of one-half in cottons, and only an advantage of a quarter in iron, and could sell our cottons to Sweden at the price which Sweden must pay for them if she produced them herself, we should obtain our iron at an advantage of one-half, as well as our cottons.' I confess that I cannot make out what Mr. Mill means by this latter clause of the sentence; for, even assuming his proposition to be true in other respects, the advantages would appear to be that the iron would be obtained not at one-half the cost, but at two-thirds of what must be given for it in England. But the whole statement involves a fallacy which seems to arise from a confusion of the different ideas of quantity and value, and which can be made apparent on examination.

Let us suppose a to be a certain quantity of cotton goods, and b to be a certain quantity of iron; and that

the value of a is 10 (of the same units of account) in England, and 20 in Sweden; and that of b is 15 in England, and 20 in Sweden. We have here the proportions mentioned by Mr. Mill. Both a and b are cheaper in England; but as to a, she enjoys an advantage of one-half; as to b only of one-quarter. Now, let us suppose that 10 a is taken to Sweden, and is there of the value of 20 a, where it will be equal in value to 20 b; that is, that the cotton can be exchanged for the iron, both being of the same value in Sweden. The merchant will thus become possessed, for the original value of his cotton, 10 units, of an amount of iron worth 20 units in Sweden, which would have cost him 15 units to purchase in England. He seems to have gained an amount of b or iron, equal to 5 units in value, on the transaction. But in fact no additional substance has been produced. He and the nation have only exchanged a certain quantity of cotton for a certain quantity of iron to be added to what of this latter was possessed before. The value of the iron received will depend upon the possibility of exchanging it for things other than iron, which he may not want; and, if there be already more iron in the market than is required, the transaction will not suit his purpose, nor will the nation be a gainer.

Now let us note the intervention of a third article, gold, used as money in the transaction—still observing the same relative proportion of values for illustration. The cotton is purchased by the merchant, or is made by

him by labour and materials, costing ten pieces of gold, each equal to a unit of account. He takes it to Sweden, and there sells it for twenty pieces of gold, with which, as before, he may purchase the certain quantity of iron for the same amount; but although he could not in England have purchased the iron which he wants for the ten pieces of gold—the value of the cotton there—it is no longer to his interest to buy iron in Sweden, because here he would have to pay twenty pieces of gold for the same quantity which he can get in England for fifteen pieces. He will take gold back with him to England, and, after purchasing the iron for fifteen pieces, he will still retain five pieces as profit besides. Without the intervention of money he would have had a profit of five units embodied in the supposed greater relative value of the iron, and so would the nation in possessing two lots of iron valued at fifteen each, making thirty, instead of one lot of cotton and one of iron, valued at ten and fifteen respectively. But now he has a profit of ten units—five being in the form of iron, and five in that of gold; and the nation has also a profit of ten, being the twenty embodied in the gold, less the value of the cotton (ten) which has been given for it. By changing the cotton for gold in the one place, and the gold for iron in another place, twice the amount of profit has accrued to the merchant and the nation that could have been obtained by direct exchange of cotton for iron under the circumstances supposed by Mr. Mill. In mercantile proceedings this will always be the case; and

so long as money is used in commerce, it will never be found that, where one country has a decided advantage in the production of two commodities, it will be beneficial for her to exchange one for the other with another community, unless where she has more of the one and less of the other commodity than she requires; and even in that case she will sell her surplus for money where she gets the largest price, and supply her deficiencies where she can buy most cheaply.

But in the illustration which I have given it is made obvious how fallacious and misleading are all attempts to explain the true effect of international trade which take no account of money as a third article of exchange introduced into the transaction.

A like misconception pervades the supposed case stated by the elder Mill in his 'Elements of Political Economy,' and quoted by J. S. Mill, respecting the advantage enjoyed by Poland over England in the production of both corn and cloth. It is admitted that if both corn and cloth require the same amount of labour to produce them—that is, if both require one hundred and fifty days in England, and one hundred days in Poland—no benefit from exchange can arise. But he proceeds to say that, if corn costs two hundred days' labour in England and only one hundred in Poland, it will then be advantageous to England, and cause no loss to Poland, if the former exchanges cloth, which cost one hundred and fifty days' labour, for corn, which cost only the labour of one

hundred days. This would be true if the question were really answered by the amount of labour expended. But it does not seem to have occurred to Mr. Mill that it would not be possible, under the supposed circumstances, to save anything but labour. The English producers might have more leisure, but they would not become richer. No profit would be made out of the transaction. Besides the cloth she wants for herself, England would have no motive for making more than sufficient to buy enough corn for her consumption. There she would stop. There would be no inducement to accumulate either cloth or corn beyond a certain amount. The answer really, however, depends upon what was given for the labour, or what else could be got for it in the place where the corn and cloth are produced. It is a fruitful source of error and perplexity in the problems of economical writers that they habitually treat labour as if it were a material substance, of which a quantity of certain size and weight in one place were always equal to a quantity of the same size and weight in another, as an ounce of gold or a pound of wheat in one country will always be equal to an ounce of gold or a pound of wheat in another, which the labour certainly is not; and yet that the labour will not vary in value relatively to the other things, as the gold and the wheat certainly will. If, in the case supposed of the trade between England and Poland, two hundred days' labour in England costs no more in money than one hundred days' in Poland, labour being at the rate of one

shilling in the one place and two shillings in the other, and we recollect that the transactions are effected by the intervention of money, the features of the case are entirely changed. Although the cloth requires one hundred and fifty days' labour, and the corn two hundred days', in England, and the corn and the cloth only one hundred days' each in Poland, the cloth will only cost one hundred and fifty shillings in England, against two hundred shillings in Poland, and the corn will only cost the same as in Poland. It will remunerate Poland to get cloth from England, but it will not be to the advantage of England to take corn from Poland when she can produce it as cheaply at home, and by so doing avoid the cost of carriage, which must be added if she take corn from Poland.

As a matter of fact, then, we see that in all these questions concerning exchanges, it is not enough to consider only the relative value of one thing compared with another. Each case is a compound result of the value of money as a substantive article in relation to labour as a commodity, and of each of the other articles exchanged in relation to money and to labour in the two places between which the exchanges take place.

The effect of the introduction of a third article of exchange in the transaction is something like that of the presence of the goose in the child's puzzle of 'The Fox, the Goose, and the Corn.' The affair is simple enough, so long as only the fox and the corn are to be dealt with.

But the attraction of the corn for the goose, and the goose for the fox, introduces complications of which it is not easy to dispose.

Failure to comprehend this fact, and to see the error which arises from disregard of it, is the source of much confusion in many inquiries of practical importance. From it flows the remarkable doctrine of Ricardo, adopted by Professor Fawcett, that rent is not an element of the cost of obtaining agricultural produce—a proposition of which he remarks that a no less eminent writer than Mr. Buckle had assured his readers that it can only be grasped by a comprehensive thinker. One would like to know whether Mr. Buckle really grasped it, and thoroughly assented to it as true; for this proposition affords us another instance of the fallacy of reasoning *a dicto secundum quid, ad dictum simpliciter*; and the question involved has acquired a pointed interest from the recent disputes between the agricultural labourers and their employers in England. Mr. Fawcett assumes that if all land was made rent free, no diminution would be caused in the consumption of food; the same quantity of agricultural produce would be required as before; the same area of land would therefore have to be cultivated. That land would still require to be tilled which previously only paid a nominal rent; but if food was rendered cheaper by making land rent free this land, which before only paid a nominal rent, would be cultivated at a loss. No person, however, will, he says, continue to apply his labour

and capital if he does not obtain in return the ordinary rate of profit, and therefore if food became cheaper such land as we have just described would cease to be cultivated; *but this cannot be,* he immediately adds, because the demand of the country for food is such that the produce which this land yields cannot be dispensed with. It is therefore manifest that food cannot become cheaper, even if land were made rent free. Rent, consequently, he concludes, is not an element of the cost of production.

The whole of this, as I venture to think, most erroneous argument is grounded on the fallacious supposition that no food could be obtained from any other country than the one under consideration, and is constructed in forgetfulness of the fact that money is an article of exchange. The whole question for the farmer, who cultivates the land, resolves itself into what he has to give in money for the produce which he is afterwards to sell. If he have to give wages *and* rent he must, to remunerate himself, get more money for the produce of the land than would be sufficient for his purpose if he had the land rent free and paid wages only. The cheapness of food, relatively to other things, does not affect him at all. It might be exceedingly dear as compared to clothing, but that would do him no good; and its cheapness does him no harm, if only he has not, from the force of circumstances, to pay more to produce it than he can obtain for it in competition with other food produced under more favourable circumstances than are at his com-

mand. It is just this competition to which the English farmer is now exposed. Vast quantities of grain from the north-western States of America, from California, and South Australia, and the Baltic and Black Sea provinces of Russia are poured into the English market, which can be sold at a certain rate, leaving a profit on the transaction, chiefly because, in the three first-named places, at all events, of which I have some personal knowledge, land can be obtained practically rent free. The production per acre in England will be much larger, the land being more fertile or better cultivated, but that does not affect the question, because there must practically be a limit on an average. The problem for the English agriculturist is, whether the best average quantity which he can produce, sold at the rate which he must take in view of the competition, will enable him to pay a certain amount of wages and other expenses, *and* a certain amount of rent for the land. It is incomprehensible to me that any one, in the face of the facts around him, can doubt that the rent which the farmer has to pay is a part of the cost of production: but the doubt can only co-exist with disregard or ignorance of the hard fact that money is an article of exchange. The farmer, however, has to solve the problem for himself, and only three alternatives are open to him. He must reduce expenses of cultivation, including *wages*; or he must pay less *rent*; or he must abandon the cultivation. Neither the supply of wheat grown by him, nor that produced by the nation to which

he belongs, will determine market prices, which will be regulated by importations from other places, possessing natural advantages of one kind or another which enable corn to be grown there at less money cost per quarter than can be done in England, if rent and wages both remain at certain rates. If there are causes which should keep up the rent of land for other purposes, and if demand for labour in other employment prevents the reduction of wages, dislike it as much as he or we may, the only conclusion is, that agricultural production can no longer be maintained in England—she must cease to be an agricultural country. According to the principles of political economy, as generally taught, it may not be undesirable that this result should follow. But I, for one, as an Englishman, cannot help feeling some regret at the prospect of such a result; though it is probably inevitable unless more people, than appear to do so at present, do not soon perceive the difference referred to by Mr. Fitz-James Stephen between the propositions—'If your only object in trade is to make the largest possible profit, you ought always to buy in the cheapest market, and sell in the dearest;' and this other, that 'All men ought, under all circumstances, to buy all things in the cheapest, and sell them in the dearest market.'

It is not difficult to perceive in what the benefit of foreign commerce consists. Besides its enabling countries to obtain commodities which they could not themselves produce, it does certainly afford an advantage in a more

efficient employment of the productive forces of the world. How far this general advantage to the world at large can be obtained without sacrificing specially national interests, will not be clearly ascertained unless we see and take account of the action of money as an article of exchange in commercial intercourse.

It is urged by Mr. Mill, that the only direct advantage of foreign commerce consists in the imports. He says that the vulgar theory disregards this benefit, and deems the advantage of commerce to reside in the exports; as if, not what a country obtains, but what it parts with by its foreign trade, was supposed to constitute the gain of it.

It is worth our while to consider this proposition a little. The nation is, in its dealings with other nations, only an aggregate of individual consumers. Let us take the dealings of one individual consumer. Will the wealth of a baker consist not in the quantity of bread which he sends out for sale, and be derived from the number of his customers, but in the quantity of meat which he obtains from the butcher, and consumes in his own family? Will the prosperity of the butcher depend likewise upon the amount of bread which he obtains from the baker and consumes? And will either be able to save anything on his transactions if he 'imports' into his household, and consumes more of the article obtained from the other than he can pay for by the article with which he supplied him? I do not think that any one can doubt the answer to these questions. If both the tradesmen consume other

articles to the full value of those supplied by themselves, it will scarcely be supposed that any profit or savings can be accumulated from their business. The one illustration will answer for all individual industries. For all purposes of thrift or accumulation, it is essentially necessary that each trader should obtain for his wares more money than he expends in purchasing supplies from other persons. Otherwise he may live lavishly, and incur debts; but if he does not receive more value for what he sends out or 'exports,' than he gives for what he consumes or 'imports,' he will soon find himself involved in difficulties. This instance, which I think is not open to objection, affords a remarkable comment upon Mr. Mill's proposition. In the first place, if the prevalent theory were correct that money is not wealth, but only a medium of exchange, it is impossible to see how imports can be obtained beyond the value of the commodities produced and exported to pay for them. And although if the full value of these be imported, the imports may add to the comfort and luxury of the importers, it may be presumed that they are only obtained for the purpose of consumption; and the nation could only be in the same position as the improvident man, who lives up to the full amount of his income, and 'imports' largely from his tailor, wine merchant, butcher, baker, and other tradesmen, beyond the possibility of saving. But whether the nation chooses to save and become rich, or to live profusely, it is certain that its income, like his, will depend upon the amount of

exchangeable property which it may be able to produce—in other words, upon its exports. I can scarcely understand how Mr. Mill, or any other person who has studied the subject, should have thought otherwise; how he failed to perceive that there can be no saving or profit upon interchanges of goods intended merely for consumption. If no benefit is derived from an extended market for produce, or an abundant consumption for her goods—and if money is not a commodity—it is wellnigh impossible to understand what advantage can be derived by Great Britain from trade with gold-producing countries like California or Victoria in the earlier days, when they had nothing but gold to offer in exchange for goods.

It is surprising that, while rightly objecting to any theory which implied that money is the only wealth, he and others should have altogether ignored the underlying stratum of truth in the mercantile theory. Even Adam Smith, opposed as he was to it, allowed that foreign trade afforded an outlet for the surplus produce, and enabled a portion of the capital to replace itself with a profit; but Mr. Mill maintained that 'these expressions suggest ideas inconsistent with a clear conception of the phenomena.' He proceeds to object that, 'the expression "surplus" produce seems to imply that a country is under some kind of necessity of producing the corn or cloth which it exports;' and he gives an explanation of what he regards to be the true state of the case, which could only be true on the supposition that every nation could really produce

everything which it wants, and in sufficient quantity for its requirements. He says that, if prevented from exporting surplus productions, the nation 'would cease to produce it, and would no longer import anything, being unable to give an equivalent;' but the disengaged labour and capital 'would find employment in producing those desirable objects previously brought from abroad.' The principal imports of Great Britain are raw cotton, corn, sugar, wool, silk manufactures, and tea. The principal exports are cotton, woollen, iron, and steel, and linen manufactures, coal, and machinery. According to Mr. Mill, then, we may assume that if Great Britain were prevented from exporting these articles, all the liberated labour and capital would be immediately applied to growing sugar, silk, and tea, and raw cotton to a limited extent, for home consumption. More wool than she now has would probably not be required. She would have to do her best to produce more corn. Can any stronger instance be cited of the extraordinary flights of fancy which are often presented to us as the conclusions of economical science? Does the wealth conferred by commerce on Great Britain consist in the consumption of sugar, silk, and tea, and in retaining in her possession vast quantities of unmanufactured cotton?

But another example of remarkable illusion is furnished by the statement immediately afterwards, made by Mr. Mill, that 'the gains of merchants, when they enjoy no exclusive privilege, are no greater than the profits

obtained by the employment of capital in the country itself.' And he replies to the objection that, in case of the cessation of foreign trade, capital could not find employment in supplying the home market, by saying that 'we not only see that the capital of the merchant would find employment, but we see what employment.' That is, as we have observed, that the labour and capital now employed in British manufactures would immediately betake itself to the production of sugar, silk, tea, and cotton, in Great Britain. But surely it is surprising that among a mercantile nation like that of Great Britain, it can be supposed, by any one at all conversant with business affairs, that the gains of merchants are never any greater than the profits obtained by the employment of capital in the country itself. We know that men have been ruined by mercantile speculations; but we know, also, that the growth of the colossal fortunes which have been amassed by such men as the late Mr. Peabody, who began life with scarcely anything, cannot be measured by any rate of compound interest for capital invested, which it is possible to obtain anywhere on the globe.

This, however, with other fallacies, grows out of the singular doctrine that money is not wealth, and the belief that capital is augmented and amassed by some occult manner similar to the growth of population. There seems always to be hanging about the doctrine of the economist an unexpressed idea that property can spring from property, as life springs from life by animal generation.

The concluding paragraph of Mr. Mill's chapter on international trade, where he speaks of the indirect effects of foreign commerce as among benefits of a high order, affords an instance of the marvellous inconsistencies found in the prevalent economical doctrines taught chiefly on the authority of Mill. He points out, in glowing language, how to a 'people in a quiescent, indolent, uncultivated state, with all their tastes either fully satisfied or entirely undeveloped, the opening of a foreign trade, by making them acquainted with new objects, or tempting them by the easier acquisition of things which they had not previously thought attainable, sometimes works a sort of industrial revolution in a country whose resources were previously undeveloped for want of energy and ambition in the people.' Now this view may be correct, as I believe it to be; but it is wholly irreconcileable with what he has laid down in another place, that it is only by what a person abstains from consuming that he benefits the labouring classes.

In the chapter on international values, many pages are devoted by him to arguments and inferences drawn from supposed interchanges of cloth and linen between England and Germany, which are really as inaccurate as his conclusions from the supposed dealings between England and Poland in corn and cloth already referred to, and from the same cause—the omission to take into account the effects of the intervention of a third article of exchange everywhere in request; the simple fact being that in all free

trade articles are exchanged for gold where most gold can be got for them, and the gold taken to places where the articles it is desired to purchase can be obtained for least gold, and that without gold free trade would be impossible.

But after all his elaboration of the subject, he arrives at the conclusion, in the latter part of his chapter, that 'the only general law, then, which can be laid down is this. The values at which a country exchanges its produce with foreign countries depend on two things.' . . . 'But these two influencing circumstances are in reality reducible to one.' . . . 'It still appears,' he says, 'that the countries which carry on their foreign trade on the most advantageous terms are those whose commodities are most in demand by foreign countries, and which have themselves the least demand for foreign commodities.' In other words, those countries which have the old-fashioned balance of trade in their favour. But this does not appear to be quite in accordance with the doctrine previously stated, that 'the only direct advantage of foreign commerce consists in the imports.'

In an article in the *Westminster Review* for last April, on Moral Philosophy, at Cambridge, the writer observes, that to obtain a firm grasp of Mill's Theory of International Values probably requires as great powers of mental concentration and as special an aptitude as to master Laplace's Co-efficients. So, no doubt, it does. And so it probably would to understand the Planetary System of Tycho Brahe, which assumed that the earth is stationary,

and that all the other planets revolve round the sun, being carried with it round the earth. It is known that his system explains all appearances quite as well as that of Copernicus; and that in fact there is nothing but a comparatively recent discovery, the aberration of light, which is demonstrably conclusive in favour of the annual motion of the earth. As the pre-existing belief of Copernicus, with some additions and modifications, has been shown by Bradley's discovery to be correct, so by recalling our attention to the fact demonstrated by the history of California and Victoria, that gold—and therefore money—is an article of exchange, we may be enabled to pérceive that the old mercantile system, now dismissed with contempt, is, with some limitations and explanations, not so wholly erroneous as is commonly supposed, and to arrive at a less hazy conception of the character of paper-money, and the nature of international exchanges.

ON FOREIGN EXCHANGES AND DISTRIBUTION OF THE PRECIOUS METALS.

MR. FAWCETT, in his 'Manual of Political Economy' (2nd edition, p. 362), states that 'gold (and the same remark applies to silver) is devoted to two distinct purposes—1st. Gold is employed as an ordinary article of commerce. 2nd. Gold is the substance from which a great portion of the money of every country is made. A very large proportion of all the gold that exists in the world is devoted to the last of these two purposes.'

Mr. Mill, at the beginning of his chapter on Foreign Exchanges, says—'We have thus far considered the precious metals as a commodity imported like other commodities in the common course of trade, and have examined what are the circumstances which would, in that case, determine their value. But those metals are also imported in another character—that which belongs to them as a medium of exchange; not as an article of commerce to be sold for money, but as themselves money, to pay a debt, or effect a transfer of property.'

In these statements we have a concise expression of the

error against which I protest. The distinction which it is sought to establish has not, and cannot have any real existence. If gold is at all, and under any circumstances, an article of commerce, so must money be. The difference can only be of quantity, not of character or kind. There is no more distinction between an ingot of gold worth one thousand pounds and a bag of one thousand sovereigns than there is between a pipe of wine and that same wine put into bottles for more convenient division and transport in small quantities. There is no magic in coining, and the Government never, under any circumstances, can create money, though it may create public liabilities in the shape of paper currency, as has been done by the United States, and by some continental governments more recently. All that is effected by coining is to give a more authoritative certificate to the quantity and quality of a piece of gold, in a manner not unusual formerly with respect to other commodities. Some years ago the packages of fish taken in the North American fisheries were always subjected to inspection as to quantity and quality, and were stamped and certified accordingly, by the inspectors, as No. 1 or No. 2 mackerel, for instance, as the case might be. The packages so certified had a sort of *timbre* and corresponding market value. The principle, and, indeed, the practice involved in coining is the same, and nothing more. The use and free circulation of true money arises only from the fact that all civilised nations have agreed to receive the precious metals in

exchange for other commodities in all cases where it is not necessary or desirable to take something else; because the metals are not subject to decay; as every one desires to have them they are always readily again exchangeable, and this of itself increases the desire for them.

The fact that the occasions are numerous when coin is melted down and transported to places distant from that to which the coinage belonged, to be there exchanged for other commodities, as Professor Fawcett mentions to have been the case with French silver sent to the East, ought alone to be sufficient to show that money does not cease to be a commodity. It is strange that the significance of these facts, and of the admission that gold and silver contain great value in small bulk, is not perceived, and the true inference not drawn from them, that money is an article of commerce, and must indeed be so before it can become a medium of exchange.

But all Mr. Mill's theory of foreign exchanges is vitiated by the failure to recognise the true character of money, and the effect which must be produced by the fact that it is a third article of substantive value, when, as he admits, 'in practice the imports and exports of a country are not only not exchanged directly against each other, but often do not even pass through the same hands.'

He states that 'since things which are equal to the same thing are equal to one another, the exports and imports which are equal in money price, would, if money

were not used, precisely exchange for one another.' (Vol. II., p. 171.) And in a note, which is an extract from one of his essays, he uses an elaborate argument adapted to the imaginary case of a trade between England and Germany in cloth and linen, to show that the same conclusion is arrived at by supposing the employment of money which is found to hold on the supposition of barter. But the whole of the argument is grounded on two gratuitous assumptions, which are not by any means necessarily found to be facts in actual practice. He supposes 'that before the opening of the trade the price of the cloth is the same in both countries, namely, six shillings per yard. As ten yards of cloth were supposed to exchange in England for fifteen of linen, in Germany for twenty, we must suppose that linen is sold in England at four shillings per yard, in Germany at three shillings. Cost of carriage and importer's profit are left as before out of consideration. In this state of prices, cloth, he admits, 'it is evident cannot be exported from England into Germany; but linen can be imported from Germany into England. It will be so; and in the first instance the linen will be paid for in money.' He proceeds however to show how an equilibrium of imports and exports will, according to his views, be established by the efflux of money from England, and its influx into Germany. But, in the first place, it is assuming altogether too much, to suppose that the amount of money flowing into Germany in exchange for a single article of export among

many of both export and consumption, would or could be sufficient to raise money prices generally for everything else in Germany. And, secondly, supposing that the quantity was sufficient to do so, if it remained in Germany, there is nothing to justify the assumption that it may not flow out again in trade with some other place—as with China, for tea, which must be paid for in money—in quite sufficient amount not only to keep prices where they were when the trade with England began, but even still further to lower the price of linen as compared with money in Germany. This is an instance of many unjustified assumptions upon which economical dicta are frequently based.

The greater part of Mr. Mill's chapter on Foreign Exchanges, in which he explains the fluctuations in exchange as depending upon the preponderance of imports or exports in the trade between any two countries, is in fact nullified by a paragraph at the close of it, in which he says—'It remains to observe, that the exchanges do not depend on the balances of debts and credits with each country separately, but with all countries taken together. England may owe a balance of payment to France, but it does not follow that the exchange with France will be against England, and that bills on France will be at a premium.'

If this explanation be correct, we need not trouble ourselves about any fluctuations of trade in detail; and as the imports of England have for years been largely in

excess of her exports, exchange must always be against England. It may safely be left to the experience of the mercantile world to say whether this is uniformly the case. In fact, we know that exchange is not uniformly against England, and whether it is so or not will depend primarily not upon the balance of trade with any particular country, nor with all countries taken together, but upon the respective plentifulness of money in the respective countries—in other words upon the greater or less demand for money which exists in comparison with that for goods in these places. In a country where money is abundant and cannot find ready employment, a banker will not so willingly take it in exchange for an amount to be paid by him in another place where money is scarce and in much request. He cannot so easily use it with profit in the former as in the latter place; and if he consents to the exchange, it will only be on condition of receiving a premium which is computed to compensate him for the loss he would otherwise sustain in the transaction. In fact, exchanges will be regulated by the relative value of money as a commodity, in the two places between which the exchange is to be effected. The case is similar if we suppose the exchange of any other commodity in one place for a like quantity of equally good quality in another; A, who possesses ten thousand pounds of wool in London, worth there, and at that time, fifteen pence per pound, will not transfer that wool to B, for other ten thousand pounds in Australia, only worth tenpence per pound there, unless B compensates him for the difference in value. And the mere cost of carriage and other expenses will not determine the amount of this, because, by the time the latter parcel arrives in London, the value of wool may have fallen relatively to other things, and probabilities on this score must also be taken into the calculation.

In the case of money, exchanges will also be influenced by other causes: the subject is rendered obscure by the use of paper money and the privilege which is accorded to banks of issuing their notes in payment of demands upon them; thus using their credit in augmentation of their true capital; banking companies in this manner receiving interest for the use of their credit instead of money, and deriving profits which could not be obtained unless the circulation of bank-notes were permitted.

But apart from Mr. Mill's own contradiction in the later paragraph which I have quoted—of his statements earlier in the chapter, these former statements are almost altogether based upon the fallacious assumption that all amounts payable to one nation from another can be used as *sets-off* against amounts due from the first; that debts can be written off as in dealings between individuals, and only the balance due be remitted in the precious metals. No doubt this will always be the case eventually unless the international obligation remains unsatisfied; but this alone will not meet the whole case in actual practice. His argument takes for granted that all bill transactions

take place on the same side—that A in England draws a bill on B in France for the amount which B owes him: and that D in England, having an equal amount to pay in France, pays this bill from A and sends it to C, who, at the expiration of a certain number of days which the bill has to run presents it to B for payment. Thus, he says, the debt due from France to England, and the debt due from England to France are both paid without sending an ounce of gold from one country to another. This supposes that only one bill is drawn, and that in England for both transactions, and implies that each individual engaged in a trade between two countries knows what all others are doing in the same trade. Let us suppose, what is quite as likely as Mr. Mill's hypothesis, that instead of the purchase by D of a bill to remit to C, that C draws in France upon D in England for the amount due from him. Here we find that instead of the value of the goods being written off or exchanged in the national transactions, in each case the value of the exports has to be paid for in money in the other country, and twice the value of the property has changed hands in the operation. This effect *might* be produced to the full extent of the whole trade between the two countries, which would then require money to the whole value of exports from both to carry it on. No doubt this never occurs to the full extent, but we know that in fact bills are not always drawn in one country in a trade between any two nations, nor is perfect equilibrium preserved in the drafts from either side; and

fluctuations in this, as well as other causes, will affect rates of exchange between money in one place and money in another, because it must affect the demand for the temporary use of money.

Mr. Mill refers, with great approbation, to the statement made by Ricardo, that 'gold and silver having been chosen for the general medium of circulation, they are by the competition of commerce distributed in such proportions among the different countries of the world as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter.' This would be an apparently satisfactory explanation, if only it were true. But is it true? Is it at all consistent with what we know of the trade between Great Britain and China and India? —in which we are aware that her exports of ordinary merchandise do not pay for half the value of the tea, silk, and other commodities obtained from these places, money having to be sent for the remainder. Would it have been possible for us to procure these imports from China and India without the precious metals to give in exchange for them? When British goods have been persistently declined we have no ground for assuming in this case that there would have been any natural traffic which the gold and silver do not affect. And what is true in this case may be more or less true in all. At all events we are not justified by such a remarkable exception in adopting so broad a generalisation as Mr. Ricardo's.

Mr. Fawcett's observations in his Manual touching the effect of the recent gold discoveries, afford us a remarkable comment upon this question. He alludes to the extraordinary export of precious metals to India and China since 1850, shown by the Board of Trade returns. The annual average amount had certainly not been less than 12,000,000*l.* at the time when he wrote, and yet a few years previous to 1850 the amount sent was comparatively insignificant. He thinks that the increase in the trade of the country is exhibited in a striking manner by the quantity of tea and silk which we import from China. In 1847, he says, we purchased only 55,000,000 lbs. of tea from thence, whereas now (1863) we import 100,000,000 lbs. And he thinks that this increased consumption of tea which has taken place since the introduction of free trade proves the benefits derived from that policy, for there is no luxury so much prized by our labouring classes as tea, and therefore the consumption of tea could not have so largely increased unless the labouring poor had become far more prosperous. I will not discuss the question whether tea—which the Western world did very well without until a few hundred years ago—is one of the most desirable acquisitions for the labouring classes, good for the nation to possess, at the expense of more durable exchangeable property which might be applied to other purposes. But it is interesting, as well as important, to consider whether this great increase of importation is really due to free trade—whether, however free the trade

might be, it would have been possible but for the enormous accession to the quantity of the precious metals obtained from California and Victoria, which have furnished the nation with the only commodity for which the Chinese are willing to exchange their tea in trade with us at least.

Mr. Fawcett assumes that the sudden development of our trade and commerce about the year 1850 created a demand for a greater quantity of money to be brought into circulation. Suppose that we take the converse of this proposition, and ask whether it was not the acquisition of a larger quantity of money—of exchangeable property of value—which caused this sudden expansion of trade and commerce. The effect upon the gold countries themselves cannot be disputed; but after its fertilising influences had been felt there gold flowed out to other countries, where the same effects have been produced, only lessened in degree by the greater diffusion over a larger surface. It is indeed most strange that the true causes of the phenomena which we see around us should be so misunderstood, notwithstanding facts patent to ordinary observation; and the misconception affords a singular instance of the persistency of error accepted without question on the authority of great names. The reputation of Newton and the opposition of Lord Brougham prevented the recognition of truth in Dr. Young's exposition of the undulatory theory of light, now established beyond question. Worship of Adam Smith and the celebrity of Mr. Mill have placed obstacles to our

perception of what has been plainly taught by the gold discoveries of the last five-and-twenty years.

Whether the true explanation of the laws of light were correctly understood or not mattered nothing in the operation of those laws, which can neither be prevented nor counteracted by man. It is otherwise in the case of a misunderstanding of facts in political economy, when commercial policy and fiscal regulations may be based upon a mistake from which important consequences flow.

And yet in the writings of the economists we repeatedly meet with passages which indicate their knowledge of facts, which ought to have shown inevitable consequences which must follow from them, utterly irreconcileable with the prevalent doctrine of the significance of money in the mercantile exchanges of the world. In Ricardo's chapter on the influence of demand and the supply of prices, he refers to observations of M. Say, to the effect that the demand for gold having increased in a still greater proportion than the supply since the earlier discovery of mines in South America, its price in goods, instead of falling in the proportion of ten to one, fell only in the proportion of four to one; that is, instead of falling in proportion as its natural price had fallen, it fell in proportion as the supply exceeded the demand. This ought to have been suggestive of the truth, that there is no natural but only relative price as compared with other things: and that the greater demand for other things, caused by larger means to purchase them in the accession of greater quantities of

gold and consequent increase of production, prevented that disproportion between the relative values of gold and other commodities, which would have been obvious if the quantities of these latter had remained the same and that of gold only had been augmented. Ricardo further says, in a note to this passage, that 'if with the quantity of gold and silver which actually exists, these metals only served for the manufacture of utensils and ornaments, they would be abundant, and would be much cheaper than they are at present; in other words, in exchanging them for any other species of goods we should be obliged to give proportionally a greater quantity of them. But as a large quantity of these metals is used for money, and as this portion is used for no other purpose, there remains less to be employed for furniture and jewellery: now this scarcity adds to their value.' This is only tantamount to what I have remarked in a previous Essay,* that if it were not for the intrinsic value of money as an article of exchange, we might use the precious metals for many purposes for which they are peculiarly suited, but to which they are now too costly to be applied. If we cannot afford to melt down coin for these purposes, it is—and can only be—because it possesses a substantive value too great in exchange for other things more imperatively necessary to permit the extravagance. And if this is the fact, we only involve ourselves in endless confusion by refusing to take into account the effect of money in exchanges, and puzzle our-

* Money—a Function.

selves needlessly by striving to work out, without the intervention of money, economical problems which cannot be solved unless we make allowance for that effect.

We are taught by Mr. Mill that 'all interchange is in substance and effect, barter: whoever sells commodities for money, and with that money buys other goods, really buys those goods with his own commodities. And so of nations: their trade is a mere exchange of exports for imports; and, whether money is employed or not, things are only in their permanent state when the exports and imports exactly pay for each other.' The whole of this is an imaginary hypothesis, utterly unjustified by facts. All interchange is in substance barter, but it is only sometimes barter between commodities of other kinds—money of account being used as furnishing a convenient mode of comparing values agreed upon; it is sometimes barter of other commodities for gold or silver as money. And the effect is not at all times, and in all places, the same. Were money only the machinery that Mr. Mill supposes it to be, trade would never be in any state but that which he regards as one of stable equilibrium. At all events, no nation would knowingly give away exports for imports of less value, and there would never be any balance to be paid in the precious metals. The simple fact that this does sometimes occur—that there are many instances where the balance of trade, as it is called, is uniformly against a nation, and that this balance has to be paid in coin or bullion—shows that money is a commodity, and not a medium. Paper currency taken from the United States

would be useless in exchange for tea with China. And were Great Britain, from any cause, to be drained of the precious metals as the United States have been, her enormous trade with China and India must cease, unless she could persuade other nations to give her a sufficient quantity of gold, in exchange for promises to pay, to enable her to prosecute the trade.

Mr. Mill endeavours to explain a fanciful distinction between, what he calls, a barter system and a money system, and the process under the two by which things are brought back to a condition of stable equilibrium when they have deviated from it. He did not perceive that if any distinction exists, it must be because the money introduces a new element. Under the first, he says that the country which wants more imports than its exports will pay for, must offer them at a cheaper rate, as the sole means for creating a demand for them sufficient to re-establish the equilibrium. Embarrassed by the doctrine that money is in itself nothing, and only useful as furnishing a standard by which to compare values, he endeavours to escape by an hypothesis quite untenable. How is it possible, by offering exports at a cheaper rate, to increase their value, if the exports are already insufficient in quantity to pay for the desired imports? He speaks as if it were possible to every nation indefinitely to increase production; and not only so, but to produce more in quantity for less cost in the aggregate than the former amount. But he proceeds to explain how the apparent

distinction between the two systems is to be accounted for in the case of dealing for money. When, he says, 'the state of prices is such that the equation of international demand cannot establish itself, the country requiring more imports than can be paid for by the exports, it is a sign that the country has more of the precious metals or their substitutes in circulation than can permanently circulate, and must necessarily part with some of them before the balance can be restored. The currency is accordingly contracted; prices fall, and among the rest the prices of exportable articles, for which there arises in foreign countries a greater demand, while imported commodities have possibly risen in price from the influx of money into foreign countries, and, at all events, have not participated in the general fall.' And he goes on to describe how there must be a continued influx of money until an imaginary equation takes place between exports and imports.

The whole of this is quite contrary to experience. Compare the statement with the fact that the total value of the imports of Great Britain have for the last ten years regularly, according to official returns, been enormously in excess of the value of her exports; and yet we know that during that time vast sums of gold have flowed into Great Britain from Australia and the United States, which have not flowed out again to the same amount. But to take the Indian and Chinese trade as special examples, it is notorious that the latter, at all events, has greatly increased, and that it consists, to the extent of more than half, of exchange of the precious metals for other commodities, and yet that it is equally notorious and matter for frequent complaint how much the prices of other commodities, as compared with gold, have risen and are still rising in Great Britain. It is a singular delusion that there is any necessity either that a nation should part with the precious metals in the circumstances mentioned, or that any contraction of the currency should take place. Neither the nation nor the individuals composing it will part with their gold—their money—for other things unless they happen to want certain things more than money. It is quite conceivable that a community should be so rich in gold and in all other commodities as to have no wish and no necessity to exchange anything with any other people. Such a community the United States of America probably will in course of years become, for within their borders they possess, or are capable of producing, almost every known material of the animal, vegetable, or mineral kingdoms of use to man; or at least available substitutes for any which they do not possess. In a case like this there could be no question of protection or free trade. It would be as much out of place in respect of all articles of exchange as it always was in England in regard to coal. To export anything from other countries to such a place would be to send coals to Newcastle.

But if there are certain things, such as tea, silk, cotton, and tobacco, which climate forbids a nation like Great Britain to produce, she will purchase these from abroad,

and if there are certain others which can be produced more cheaply elsewhere than at home, these also she will obtain from foreigners. But these she certainly will prefer to pay for, so far as she can, by the surplus of her own produce above what she requires for her own consumption. And she does not part with money except in cases where only money will procure that which she requires. The erroneous hypothesis which we are considering is based upon the assumption that money is nothing more than machinery, through the agency of which exchanges are effected, and of which a greater amount can never be useful than is required for this purpose, and that the remainder is therefore transferred to some other place where it is more needed. But facts do not accord with this theory. We might with as much reason suppose that more than a certain quantity of any other article of exchangeable value, as clothing or food, can never be required. With money, as with them, it could never be found true until every member of a community had so much that it had become so cheap in exchange for other articles as to be nearly valueless. We can scarcely conceive that food and clothing can ever be so abundant; and, even if gold should become so common that a sovereign should only be worth, as an article of exchange, what a shilling now is, we yet should not have arrived at this point. We know, too, that the possibility of exchanging gold in foreign commerce for other articles where it will procure the greater quantity or better quality of these tends to

diffuse this possible effect over so large an extent of the inhabited world, as to postpone indefinitely any great inconvenience. But the effect is perceptible, especially in England, into which, as the great commercial emporium and banking-house of the world, large masses of the precious metals—in other words, of money—are continually being poured, without an equal outflow to China, India, and other places, which exchange their commodities chiefly for money. And the operation even of this efflux is largely neutralised by the use which is permitted to banks of their notes, or credit, or promises to pay, in place of coin; thus adding to the amount of nominal money as an article of exchange—just as capital, or a substitute for it, has been augmented in the United States by the issue of inconvertible paper currency—and thus raising the prices of all commodities but money. The distribution of the precious metals throughout the world is, in fact, determined very materially by the greater prevalence of paper currency in some places than in others. In the United States we have seen how they disappeared before the issue of the legal-tender notes. In Italy, and probably now in France, they have become scarce; but China, India, and other places absorb large amounts. For in these the point in civilisation has not been attained, from which may be perceived the advantage of permitting persons or companies of persons to derive large profits from duplicating their money by first lending it at interest, and then lending it a second time—also at interest- in the shape of bank notes, or promises to pay.

Indeed, the fact of the continued use and usefulness of paper money in all countries serves to show that the efflux of money in the cases supposed by Mr. Mill is not a necessary consequence of abundance of money, and that there is never such a thing, even theoretically, as over-abundance. The only inevitable result is a rise in the relative values of other things. There may be such a thing as contraction of the currency where that currency is a currency of debt and the creation of the Government, which may be able to withdraw its liabilities to pay money by receiving them in liquidation of public claims; as has recently happened in America. But if true money were so withdrawn the effect would be the destruction of so much property belonging to the people. And when the occurrence happens which is called contraction of the currency—where gold and silver are concerned—it means that at that time, and in that place, the precious metals have become more valuable in proportion to other commodities than they were before. But it does not necessarily indicate that any efflux of money has taken place. Suppose a farmer, rich in flocks and herds, and with 10,000*l*. at his banker's, and a poorer neighbour who has not more than 100*l*. at his credit, but who needs two horses for his business, for which he changes four oxen with the first, paying him also a sum of 10*l*. for difference of value. Notwithstanding that the first has already more money as well as more cattle than the second, the 10*l*. will be added to his savings, and there will certainly

be no outflow from his bank account. Just similar may be, and in many cases are, international transactions. Nations will procure what they want where it is most expedient to obtain it, without any reference to such an equation of trade as is imagined by the economists, and, indeed, is necessary as a postulate in their hypotheses.

The effect of this is shown in a remarkable manner in the latter part of Mr. Mill's chapter on the distribution of the precious metals, to which I am referring. He admits that there is a semblance of contradiction between the law which he has laid down of that distribution by means of exchanges and the law by which the value of money is regulated when imported as an article of merchandize. Money he allows to be no exception to the general laws of value, and to be a commodity like any other; though he erred, I contend, in believing that 'its average or natural value depends on the cost of production, or at least of obtaining it.' 'That its distribution throughout the world, therefore, and its different value in different places should be liable to be altered by a hundred causes unconnected with it; by everything which affects the trade in other commodities so as to derange the equilibrium of exports and imports, appears,' he says, 'to some thinkers a doctrine altogether inadmissible.'

Mr. Mill proceeds to explain why he regards this anomaly as existing only in semblance. But in doing so he grants at first—what is wholly inconsistent with his attempted explanation—that the causes which bring

money into or carry it out of a country through exchanges are the very same on which the local value of money would depend if it were never imported except as merchandize, and never except directly from the mines. Here is a full admission that the value of money must vary in any place directly in proportion to relative quantity as an article of merchandize. But he proceeds to say: 'When the value of money in a country is permanently lowered by an influx of it through the balance of trade, the cause, if it is not diminished cost of production, must be one of those causes which compel a new adjustment, more favourable to the country, of the equation of national demand—namely, either an increased demand abroad for her commodities, or a diminished demand on her part for those of foreign countries.'

What do facts say in reply? It is notorious that prices of almost everything which has not been cheapened by special causes have very greatly risen in Great Britain during the last ten years; that is, that gold is permanently lowered in value. Though her exports of home produce have risen (in round numbers) from the value of 146,000,000*l.* in 1863 to 256,000,000*l.* in 1872, her imports for home consumption have also risen from 200,000,000*l.* to nearly 300,000,000*l.* during the same period. Where is the equation of national demand here, when for years the imports of the nation have exceeded her exports by millions, and the excess shows no signs of

diminution? And how shall we reconcile this with an equation of national demands? Either official returns are entirely fallacious and misleading, or the nation has for years had a balance of trade against her which must be paid in money; and if she has not paid the debt, other communities are her creditors to an immense amount. But under any circumstances, the diminished value of gold is indisputable, and totally incompatible with Mr. Mill's hypothesis, for there is no ground for assuming that the cost of producing the precious metals has suffered any diminution, either in the amount of labour necessary for the purpose, or the rate at which that labour is paid. And it must be remembered that although gold may be produced at a loss to the producer, still, if an individual has even parted with three ounces and only receive back two, yet the community of which he is a member remains in the possession of five ounces of an imperishable commodity of exchangeable value, as against only three which were previously in existence.

But the hypothesis of an equation of national demand is seen to be unfounded when we consider the instances which may be adduced of countries which do not for the most part receive their imports from the places to which they send their produce. One is afforded in Newfoundland. Except seal oil, which goes to Great Britain and the United States, almost the only product exported from Newfoundland is dried fish, and nearly the whole of this goes to Spain, Portugal, and Brazil, from which

countries none of their produce is received in return. The commodities required by Newfoundland have to be obtained elsewhere; and if money were not a commodity, but only a medium of exchange, trade between Newfoundland and Spain, Portugal and Brazil, would be impossible.

Perhaps, however, no more striking instance can be furnished of the fanciful character of the doctrine, that money is only the representative of some unspecified property belonging to some unknown person, the right to which it transfers, than Mr. Mill's observations, where he refers to the existence of international payments not originating in commerce, for which no equivalent in either money or commodities is expected or received—such as tributes, subsidies, or remittances of rent to absentee landlords.

Beginning with the case of barter, he says that it will now not be necessary that the imports and exports should pay for one another; on the contrary, there must be an annual excess of exports over imports *equal to the value of the remittance.* If previously the commerce was in a state of equilibrium, the foreign country must now be induced to take a greater quantity than before. Surely no inducement would be necessary to take what is sought for as a gift or received as a right. But he says this can only be effected by offering these exports on cheaper terms, or in other words, paying dearer for foreign commodities. Now, if this is done, the only effect must be

to equalize the value, although the quantities are varied, and there cannot be any excess 'equal to the value of the remittances.' Whatever commodities are contributed by the paying country will swell the amount of the same kind in the country to which they are transferred, and their value relatively to other commodities will be so much reduced that, although there may be larger quantity than before, there will be no additional value. And if we suppose, for example, that these contributions are of food, the recipients may be better and more cheaply fed, but no more clothing would be furnished to them. Mr. Mill further declares the remarkable result, that a country making such regular payments to others, besides losing what it pays, loses something more by the less advantageous terms on which it is forced to exchange its productions for those of the others; seeming totally to disregard the fact that, according to his own statement, it can only lose anything by the disadvantageous terms on which the exchanges are made in the value of its exports being rated lower than before.

He proceeds, however, to state how, according to the theory he mentions, the same results follow on the supposition of money as in the case of barter:—'Commerce being supposed to be in a state of equilibrium when the obligatory remittances begin, the first remittance is necessarily made in money.' Why so? To a famine-stricken country, without sufficient food within its borders, it is not money which would be sent. It was not gold and silver,

but breadstuffs, that the United States sent as a gift to starving Ireland. And there is no reason whatever why, if these contributions are, in fact, of other commodities, they should not be made specifically, from the beginning, in the produce of the country which is under the obligation to make them. Having assumed, however, that they must be made in money, he goes on also to the entirely gratuitous assumption that this lowers the prices in the remitting country, and raises them in the receiving. Upon this baseless foundation his argument is built. But it is wholly unreasonable to suppose that such remittances, insignificant, and perhaps scarcely appreciable in amount, compared to the whole mass of money and other exchangeable property in circulation in the receiving country, and to the amount of its commercial dealings with others, should have any immediate effect in raising prices. So far from the prices being raised in the receiving country, if the remittance received is expended—as will most probably happen—in importations of commodities from other quarters, prices may immediately fall, and the effects predicted by Mr. Mill become totally impossible. They are, even theoretically, entirely dependent upon commercial intercourse being restricted to the paying and receiving countries.

The simple truth is, that, as with persons, so with nations, which are only numbers of persons, when money is paid gold and silver only are transferred, or the right to claim a specified quantity of gold or silver from some

certain person at a known place, but no obligation beyond this is ever incurred. No engagement is made that the person receiving the money shall be able again to exchange it for anything whatever; the possibility of his doing so is dependent entirely upon the desire of every one to obtain that form of what Mr. Wemmick, in 'Great Expectations,' called 'portable property,' which is most easily accumulated with least risk of deterioration.

If these prolusions should help to recall some serious attention to the true character of money as an article of exchange in all commercial transactions, they will have more than answered their purpose; which originally was only for personal amusement and occupation, to note deductions from reading, in a part of the world distant from the great centres of philosophic thought and discussion.

It has long appeared to me that there is a deeply-seated misconception as to the character of 'capital' which affects many important and interesting questions. Capital is constantly spoken of as if it were a hidden force like electricity, residing in all property; whereas, when stripped of illusory appearances, we find that however we may choose to regard such possessions as the Pyramids or Westminster Abbey, a house or a steam-engine as being capital, very little besides that part of the aggregate property of the community which consists of what is expressively termed 'hard cash,' 'ready money,'

possesses any of the active attributes of capital. Other property must be exchanged for money before anything can be done with it. But in ready money resides that potential energy which can be applied at a moment's notice either to purchase wheat, to build a pyramid, or to pay an army. If there be indeed any occult power known as capital, it must be generated by the action of money upon labour, as electricity is generated in a galvanic battery by the action of one chemical agent upon another; but it operates through the circulating coin, as the electric current through the wire, and its presence is no more to be looked for in the perishable produce of that action than an electric shock may be expected from a telegraphic message delivered by an errand boy.

I am quite aware that I shall be said to be reviving the absurdities of what is called the mercantile 'system;' but whether that system is quite absurd may still be a question, when, notwithstanding what is theoretically taught as political economy, we find men practically acting upon it; all our currency representing a metallic basis, as the only indestructible one; and the National Banks still solicitous for reserves of bullion.

When, on the contrary, the absurdity is once fully apprehended of any system, however supported by the authority of great names, under which we are required to believe that though an ingot of gold, or a bag of gold dust, worth 1,000*l.*, is valuable merchandize and wealth—the same merchandize, divided into pieces, certified to

be worth one pound each, immediately becomes mere machinery, only a medium, and utterly insignificant in its effect upon the exchange of other commodities, we shall readily see that any attempt to solve economical problems is unscientific and hopeless, which disregards the fact of the intervention of money as a commodity. We shall then perceive the effect of this error—which can be easily followed—in many other branches of the subject than those to which I have referred; for it is closely interwoven with almost all prevalent doctrines relating to the material prosperity, and even in some cases, to the moral well-being of nations.

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